Fredonia Regional Hospital

A Component Unit of the City of Fredonia, Kansas



Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Fredonia Regional Hospital
Fredonia, Kansas

Opinion

We have audited the financial statements of Fredonia Regional Hospital, a component unit of the City of Fredonia, Kansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Fredonia Regional Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Fredonia Regional Hospital as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fredonia Regional Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fredonia Regional Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fredonia Regional Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted 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.

FORVIS, LLP

Wichita, Kansas
June 21, 2023

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Balance Sheets
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources

	2022	2021
Current Assets		
Cash	$ 793,295	$ 1,232,934
Certificates of deposit	1,403,683	330,586
Held by trustee for debt service	232,714	230,802
Patient accounts receivable, net of allowance 2022 – $510,229; 2021 – $700,653	1,283,163	1,606,531
Estimated amounts due from third-party payers	355,530	256,183
Supplies	259,273	278,651
Grants receivable	34,273	232,757
Prepaid expenses and other	355,986	430,723
Total current assets	4,717,917	4,599,167
Noncurrent Cash and Investments		
Designated by Board of Trustees	330,398	1,403,128
Restricted by donors for capital acquisitions and specific operating activities	9,511	61,150
Held by trustee for debt service	706,277	700,108
Total noncurrent cash and investments	1,046,186	2,164,386
Capital Assets, Net	5,884,918	6,411,410
Total assets	11,649,021	13,174,963
Deferred Outflows of Resources		
Unamortized loss on refunding of long-term debt	486,031	542,379
Total assets and deferred outflows of resources	$ 12,135,052	$ 13,717,342

See Notes to Financial Statements

Liabilities and Net Position (Deficit)

	2022	2021
Current Liabilities		
Current maturities of long-term debt	$ 448,764	$ 565,995
Accounts payable	428,064	386,548
Accrued salaries and wages	101,063	93,049
Accrued vacation benefits	185,715	184,525
Accrued interest payable	85,825	87,958
Unearned revenue	-	60,644
Total current liabilities	1,249,431	1,378,719
Long-term Debt	7,362,374	8,751,836
Total liabilities	8,611,805	10,130,555
Net Position (Deficit)		
Net deficit in capital assets	(1,926,220)	(1,838,049)
Restricted - expendable for		
Debt service	938,991	930,910
Capital acquisitions and specific operating activities	9,511	61,150
Unrestricted	4,500,965	4,432,776
Total net position	3,523,247	3,586,787
Total liabilities and net position	$ 12,135,052	$ 13,717,342

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 – $402,807; 2021 – $562,132	$ 12,121,577	$ 12,570,218
Other	408,689	401,512
Total operating revenues	12,530,266	12,971,730
Operating Expenses		
Salaries and wages	5,015,784	5,378,176
Employee benefits	1,046,895	1,130,463
Supplies and other	7,312,128	6,936,972
Depreciation	887,417	730,923
Total operating expenses	14,262,224	14,176,534
Operating Loss	(1,731,958)	(1,204,804)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – City of Fredonia and Wilson County	732,135	688,903
Interest income	21,270	12,073
Interest expense	(305,448)	(345,424)
Noncapital grants and gifts	152,089	361,486
Provider Relief Funds *(CARES Act)*	-	3,564,169
Paycheck Protection Program (PPP) loan forgiveness	1,068,372	1,068,372
Total nonoperating revenues	1,668,418	5,349,579
Increase (Decrease) in Net Position	(63,540)	4,144,775
Net Position (Deficit), Beginning of Year	3,586,787	(557,988)
Net Position, End of Year	$ 3,523,247	$ 3,586,787

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 12,345,598	$ 12,863,840
Payments to suppliers and contractors	(7,178,630)	(7,232,540)
Payments to employees	(6,053,475)	(6,499,376)
Other receipts (payments), net	336,077	(2,444,778)
Net cash used in operating activities	(550,430)	(3,312,854)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - City of Fredonia and Wilson County	732,135	688,903
Noncapital grants and gifts	350,573	128,729
Provider Relief Funds (*CARES Act*)	-	3,564,169
Proceeds from issuance of PPP loan	-	1,068,372
Net cash provided by noncapital financing activities	1,082,708	5,450,173
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	8,418,200
Refunding of Series 2016 bonds	-	(8,680,000)
Principal paid on long-term debt	(438,321)	(172,565)
Interest paid on long-term debt	(249,100)	(294,835)
Proceeds from disposal of capital assets	21,680	-
Purchases of capital assets	(370,637)	(2,087,307)
Net cash used in capital and related financing activities	(1,036,378)	(2,816,507)
Cash Flows From Investing Activities		
Interest income	21,270	12,073
Purchases of investments	(2,343,712)	(1,263,053)
Proceeds from disposition of investments	1,261,496	1,345,012
Net cash provided by (used in) investing activities	(1,060,946)	94,032
Decrease in Cash	(1,565,046)	(585,156)
Cash, Beginning of Year	2,400,662	2,985,818
Cash, End of Year	$ 835,616	$ 2,400,662

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 793,295	$ 1,232,934
Cash designated by Board of Trustees	32,810	1,106,578
Cash restricted by donors	9,511	61,150
	$ 835,616	$ 2,400,662
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,731,958)	$ (1,204,804)
Depreciation	887,417	730,923
Provision for uncollectible accounts	402,807	562,132
(Gain) loss on disposal of capital assets	(11,968)	7,251
Changes in operating assets and liabilities		
Patient accounts receivable	(79,439)	(507,641)
Estimated amounts due from and to third-party payers	(99,347)	239,131
Supplies	19,378	(651)
Prepaid expenses and other	74,737	(156,218)
Accounts payable	41,516	(84,343)
Accrued expenses	7,071	(45,093)
Unearned revenue	(60,644)	(2,853,541)
Net cash used in operating activities	$ (550,430)	$ (3,312,854)
Noncash Investing, Capital and Financial Activities		
Amortization of loss on refunding	$ 56,348	$ 50,589
PPP loan forgiveness	$ 1,068,372	$ 1,068,372

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

Fredonia Regional Hospital (Hospital) is a municipal hospital located in Fredonia, Kansas. The Hospital is a component unit of the City of Fredonia, Kansas (City). The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and physician services. The Hospital is licensed as a critical access hospital (CAH).

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.

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, 2022 and 2021.

Investments

Investments in U.S. Treasury, agency and instrumentality obligations (money market investments) with a remaining maturity of one year or less at time of acquisition are carried at fair value. Nonnegotiable certificates of deposit are carried at amortized cost.

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.

Capital Assets

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

Land improvements	10 – 20 years
Buildings and leasehold improvements	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 10 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Deferred Outflows of Resources

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

Leases

Effective January 1, 2022, the Hospital adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. The Hospital's lease agreements that were in effect during 2021 and 2022 are immaterial to the financial statements, as a result there are no right-to-use assets or lease liabilities recorded on the balance sheets. The Hospital will be required to recognize substantially all long-term leases on the balance sheet for any future lease contracts.

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.

Paycheck Protection Program (PPP) Loan

The Hospital received PPP-2 and PPP-1 loans in 2021 and 2020, respectively, 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 agreements. Any forgiveness of the loans is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on July 15, 2021, that the PPP-1 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021. Further, the Hospital received legal notice on February 7, 2022, that the PPP-2 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2022.

Net Position

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

- Net deficit 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.

Charity Care

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

Noncapital Appropriations – City of Fredonia and Wilson County

The Hospital received approximately 5% in 2022 and 2021, respectively, of its financial support from noncapital appropriations from the City of Fredonia's 1% sales tax and Wilson County property tax levy.

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

Income Taxes

As an essential government function of the City, 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.

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.

Note 2: Deposits and Investments

Deposits

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

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

At December 31, 2022 and 2021, respectively, $2,271,549 and $2,709,939 of the Hospital's bank balances of $2,728,329 and $3,209,939 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by pledging financial institution	$ 2,271,549	$ 2,709,939

Investments

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

All of the Hospital's held by trustee for debt service investments were invested in short-term U.S. treasuries (money market investments) with a remaining maturity of one year or less at the time of acquisition at December 31, 2022 and 2021, and are carried at fair value.

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	$ 2,536,887	$ 3,027,798
Investments	938,991	930,910
	$ 3,475,878	$ 3,958,708

Included in the following balance sheet captions:

	2022	2021
Cash	$ 793,295	$ 1,232,934
Certificates of deposit	1,403,683	330,586
Held by trustee for debt service - current	232,714	230,802
Designated by Board of Trustees	330,398	1,403,128
Restricted by donors for capital acquisitions and specific operating activities	9,511	61,150
Held by trustee for debt service	706,277	700,108
	$ 3,475,878	$ 3,958,708

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:

	2022	2021
Medicare	$ 580,429	$ 736,044
Medicaid	61,297	102,499
Blue Cross	101,282	254,689
Commercial	287,605	303,325
Private pay	762,779	910,627
	1,793,392	2,307,184
Less allowance for uncollectible accounts	(510,229)	(700,653)
	$ 1,283,163	$ 1,606,531

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	923,315	53,480	-	-	976,795
Buildings	11,617,628	132,687	-	3,540	11,753,855
Fixed equipment	1,559,470	12,396	-	-	1,571,866
Moveable equipment	5,413,621	58,300	(472,357)	(3,540)	4,996,024
Construction in progress	-	113,774	-	-	113,774
	19,539,508	370,637	(472,357)	-	19,437,788
Less accumulated depreciation					
Land improvements	(664,701)	(37,029)	-	-	(701,730)
Buildings	(8,067,797)	(403,194)	-	-	(8,470,991)
Fixed equipment	(748,274)	(87,848)	-	-	(836,122)
Moveable equipment	(3,647,326)	(359,346)	462,645	-	(3,544,027)
	(13,128,098)	(887,417)	462,645	-	(13,552,870)
Capital assets, net	$ 6,411,410	$ (516,780)	$ (9,712)	$ -	$ 5,884,918

	2021				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	843,452	79,863	-	-	923,315
Buildings	11,637,599	84,363	(104,334)	-	11,617,628
Fixed equipment	1,427,645	524,577	(392,752)	-	1,559,470
Moveable equipment	4,161,023	1,398,504	(145,906)	-	5,413,621
	18,095,193	2,087,307	(642,992)	-	19,539,508
Less accumulated depreciation					
Land improvements	(633,988)	(30,713)	-	-	(664,701)
Buildings	(7,771,655)	(400,475)	104,333	-	(8,067,797)
Fixed equipment	(1,090,408)	(43,368)	385,502	-	(748,274)
Moveable equipment	(3,536,865)	(256,367)	145,906	-	(3,647,326)
	(13,032,916)	(730,923)	635,741	-	(13,128,098)
Capital assets, net	$ 5,062,277	$ 1,356,384	$ (7,251)	$ -	$ 6,411,410

Note 5: Long-term Obligations

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

	2022					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2021 Refunding Revenue Bonds	$ 8,249,459	$ -	$ 438,321	$ 7,811,138	$ 448,764	$ 7,362,374
PPP loan payable to bank	1,068,372	-	1,068,372	-	-	-
	$ 9,317,831	$ -	$ 1,506,693	$ 7,811,138	$ 448,764	$ 7,362,374

	2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2016 Refunding Revenue Bonds	$ 8,680,000	$ -	$ 8,680,000	$ -	$ -	$ -
Series 2021 Refunding Revenue Bonds	-	8,418,200	168,741	8,249,459	438,321	7,811,138
Capital leases	3,824	-	3,824	-	-	-
PPP loan payable to bank	1,068,372	1,068,372	1,068,372	1,068,372	127,674	940,698
	$ 9,752,196	$ 9,486,572	$ 9,920,937	$ 9,317,831	$ 565,995	$ 8,751,836

Series 2021 Refunding Revenue Bonds

In April 2021, the Hospital issued $8,590,000 City of Fredonia, Kansas Hospital Refunding Revenue Bonds, Series 2021 (2021 Bonds). The 2021 Bonds are payable in annual installments through August 15, 2036, and bear interest at rates of 1% to 3.5%. The 2021 Bonds are secured by the net revenues of the Hospital.

Upon issuance and delivery of the Series 2021 Bonds, the Hospital defeased its outstanding Series 2016 bonds. Funds were deposited in trust under an escrow agreement sufficient in amount to pay future principal and interest on the defeased bonds. This advance refunding transactions resulted in an extinguishment of debt since the Hospital was legally defeased from its obligation on the Series 2016 bonds at the time of defeasance. The advance refunding of the Series 2016 bonds resulted in an overall future economic benefit for the Hospital. However, an accounting loss of $542,379 on the extinguishment of the long-term debt was recorded in 2021. This loss on refunding is shown as a deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2021 Bonds.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and restricted cash and investments - current in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage of at least 1.10 or maintaining a minimum days' cash on hand of 75 days, which includes the Fredonia Regional Health Care Foundation, Inc.'s operations and cash. The Hospital was compliant with the historical debt-service coverage ratio and the minimum days' cash on hand for the years ended December 31, 2022 and 2021.

Series 2016 Refunding Revenue Bonds

In February 2016, the Hospital issued $10,360,000 City of Fredonia, Kansas Hospital Refunding Revenue Bonds, Series 2016 (2016 Bonds). The 2016 Bonds are payable in annual installments through August 15, 2036, and bear interest at rates of 3% to 4.9%. The 2016 Bonds are secured by the net revenues of the Hospital.

Upon issuance and delivery of the Series 2016 Bonds, the Hospital defeased its outstanding Series 2010 and 2007 bonds. Funds were deposited in trust under an escrow agreement sufficient in amount to pay future principal and interest on the defeased bonds. This advance refunding transactions resulted in an extinguishment of debt since the Hospital was legally defeased from its obligation on the Series 2010 and 2007 bonds at the time of defeasance. The advance refunding of the Series 2010 and 2007 bonds resulted in an overall future economic benefit for the Hospital. However, an accounting loss of $778,100 on the extinguishment of the long-term debt was recorded in 2016.

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 obligations were paid off during fiscal year 2021.

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-1 loan of $1,068,372 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. The Hospital received legal notice on July 15, 2021, that the PPP-1 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

The Hospital received a PPP-2 loan of $1,068,372 in 2021. 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 21 weeks after receipt of the loan. The Hospital received legal notice on February 7, 2022, that the PPP-2 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2022.

Debt Service Requirements

Debt service requirements on long-term debt as of December 31, 2022, are as follows:

Year Ending December 31,	Revenue Bonds Payable Principal	Interest
2023	$ 448,764	$ 228,868
2024	454,298	221,893
2025	464,926	213,668
2026	470,650	204,068
2027	486,476	193,155
2028-2032	2,647,913	756,125
2033-2036	2,838,111	272,825
	$ 7,811,138	$ 2,090,602

Note 6: Professional Liability Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $500,000 of coverage for each medical incident and $1,500,000 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 $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year.

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

Note 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, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. Inpatient geriatric psych services rendered to Medicare program beneficiaries are paid based on a blend of prospective payment rates and cost subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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

Approximately 84% and 80% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2022 and 2021, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $19,000 and $16,000 for 2022 and 2021, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: Management/Services Agreement

The Board of Trustees 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, 2022 and 2021, were $800,884 and $726,639, respectively. Amounts included in accounts payable related to these services totaled $2,165 and $0 at December 31, 2022 and 2021, respectively.

Note 10: Pension Plan

The Hospital maintains a defined contribution plan (401(a) plan) covering all employees. Employer and mandated employee contributions are computed at 4% and 3% of the covered payroll, respectively. The contributions are invested as each employee directs. Each participant chooses which accounts to use and may change the election once each calendar year. Contributions actually made by plan members and the Hospital aggregated $103,504 and $137,884 during 2022 and $112,185 and $149,054 during 2021, respectively. The Hospital does not control the plan assets.

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 $57,101 and $57,763 during 2022 and 2021, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

Note 11: Fredonia Regional Health Care Foundation, Inc.

The Fredonia Regional Health Care Foundation, Inc. (Foundation) is a nonprofit organized to perpetuate the advancement of health, health care and medical education, research and welfare services for residents of Fredonia, Kansas and its outlaying regions. The Foundation is not considered a component unit of the Hospital. The Foundation contributed $0 and $10,000 to the Hospital in 2022 and 2021, respectively, which is included in noncapital grants and gifts in the statements of revenues, expenses and changes in net position.

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.

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

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

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results 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 the years ended December 31, 2022, and 2021, the Hospital received $0 and $649,984 of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2022 and 2021, the Hospital recognized $0 and $3,564,169, respectively, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. There were no unrecognized amounts of Provider Relief Fund distributions for the years ended December 31, 2022 and 2021, respectively.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the lasting 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

The Hospital received PPP-2 and PPP-1 loans in 2021 and 2020, respectively, 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 agreements. Any forgiveness of the loans is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on July 15, 2021, that the PPP-1 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021. The Hospital received legal notice on February 7, 2022, that the PPP-2 loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2022.

Other COVID-19 Funding

During the years ended December 31, 2022 and 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital received $232,757 and $63,313 related to the SHIP grant and recorded a receivable of $0 and $232,757 for the years ended December 31, 2022 and 2021, respectively. The Hospital recognized $33,799 and $287,951 related to the SHIP grant for the years ended December 31, 2022 and 2021, respectively. The revenue recognized is recorded as components of noncapital grants and gifts and capital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received $99,493 in a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The Hospital recognized $60,644 and $38,849 for the years ended December 31, 2022 and 2021, respectively, and is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position. At December 31, 2022 and 2021, there was $0 and $60,644, respectively of funding recorded as a component of unearned revenue in the accompanying balance sheets.

Note 13: Future Change in Accounting Principle

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