

Stevens County Hospital
A Component Unit of Stevens County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

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

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Independent Auditor's Report

Board of Directors
Stevens County Hospital
Hugoton, Kansas

We have audited the accompanying financial statements of Stevens County Hospital (Hospital), a component unit of Stevens County, Kansas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide; 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 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 Stevens County Hospital as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
February 22, 2022

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

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,744,066	\$ 590,659
Short-term certificates of deposit	3,541	5,247
Patient accounts receivable, net of allowance; 2020 – \$723,000, 2019 – \$807,000	1,793,978	1,766,281
Accounts receivable – retail pharmacy	67,382	29,308
Estimated amounts due from third-party payers	250,000	115,000
Supplies	310,809	292,492
Prepaid expenses and other	230,121	62,224
	<u>9,399,897</u>	<u>2,861,211</u>
Capital Assets, Net	<u>18,908,713</u>	<u>19,703,982</u>
Total assets	<u><u>\$ 28,308,610</u></u>	<u><u>\$ 22,565,193</u></u>
 Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,521,810	\$ 30,323
Accounts payable	285,948	698,514
Accrued expenses	1,052,334	953,869
Estimated amounts due to third-party payers	-	74,000
Unearned revenue	1,575,891	-
	<u>4,435,983</u>	<u>1,756,706</u>
Long-term Debt	<u>482,376</u>	<u>83,885</u>
Total liabilities	<u>4,918,359</u>	<u>1,840,591</u>
Net Position		
Net investment in capital assets	16,904,527	19,589,774
Unrestricted	6,485,724	1,134,828
	<u>23,390,251</u>	<u>20,724,602</u>
Total liabilities and net position	<u><u>\$ 28,308,610</u></u>	<u><u>\$ 22,565,193</u></u>

Stevens County Hospital
A Component Unit of Stevens 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 – \$334,000, 2019 – \$554,000	\$ 16,494,525	\$ 16,328,255
Other	<u>26,426</u>	<u>31,347</u>
Total operating revenues	<u>16,520,951</u>	<u>16,359,602</u>
Operating Expenses		
Salaries and wages	8,725,976	8,381,417
Employee benefits	2,999,265	2,825,035
Purchased services and professional fees	1,617,903	2,062,092
Supplies and other	3,478,711	3,681,632
Retail pharmacy supplies	927,030	964,492
Depreciation	<u>892,933</u>	<u>923,346</u>
Total operating expenses	<u>18,641,818</u>	<u>18,838,014</u>
Operating Loss	<u>(2,120,867)</u>	<u>(2,478,412)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Stevens County	1,435,953	1,494,493
Interest income	21,035	16,183
Interest expense	(2,007)	(2,607)
Noncapital grants and gifts	358,996	91,631
Provider Relief Funds (<i>CARES Act</i>)	2,967,486	-
Other	<u>5,053</u>	<u>(11,230)</u>
Total nonoperating revenues	<u>4,786,516</u>	<u>1,588,470</u>
Increase (Decrease) in Net Position	2,665,649	(889,942)
Net Position, Beginning of Year	<u>20,724,602</u>	<u>21,614,544</u>
Net Position, End of Year	<u><u>\$ 23,390,251</u></u>	<u><u>\$ 20,724,602</u></u>

Stevens County Hospital
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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	\$ 16,219,754	\$ 16,211,684
Payments to suppliers and contractors	(6,622,424)	(6,634,806)
Payments to and on behalf of employees	(11,626,776)	(11,165,653)
Other receipts, net	<u>1,602,317</u>	<u>31,347</u>
Net cash used in operating activities	<u>(427,129)</u>	<u>(1,557,428)</u>
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations – Stevens County	1,435,953	1,494,493
Noncapital grants and gifts	358,996	91,631
Proceeds from issuance of debt	1,920,300	-
Provider Relief Funds (<i>CARES Act</i>)	2,967,486	-
Other	<u>5,053</u>	<u>(11,230)</u>
Net cash provided by noncapital financing activities	<u>6,687,788</u>	<u>1,574,894</u>
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(30,322)	(29,723)
Interest paid on long-term debt	(2,007)	(2,607)
Purchase of capital assets	<u>(97,664)</u>	<u>(136,389)</u>
Net cash used in capital and related financing activities	<u>(129,993)</u>	<u>(168,719)</u>
Cash Flows From Investing Activities		
Interest income received	21,035	16,183
Change in certificates of deposit	<u>1,706</u>	<u>(982)</u>
Net cash provided by investing activities	<u>22,741</u>	<u>15,201</u>
Increase (Decrease) in Cash and Cash Equivalents	6,153,407	(136,052)
Cash and Cash Equivalents, Beginning of Year	<u>590,659</u>	<u>726,711</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,744,066</u></u>	<u><u>\$ 590,659</u></u>

Stevens County Hospital
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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 Loss to Net		
Cash Used in Operating Activities		
Operating loss	\$ (2,120,867)	\$ (2,478,412)
Depreciation	892,933	923,346
Provision for uncollectible accounts	333,780	554,044
Changes in operating assets and liabilities		
Patient accounts receivable, net	(399,551)	(361,620)
Estimated amounts due from and to third-party payers	(209,000)	(308,995)
Accounts payable and accrued expenses	(314,101)	148,681
Unearned revenue	1,575,891	-
Supplies and prepaid expenses and other	<u>(186,214)</u>	<u>(34,472)</u>
Net cash used in operating activities	<u><u>\$ (427,129)</u></u>	<u><u>\$ (1,557,428)</u></u>

Stevens County Hospital
A Component Unit of Stevens 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

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and retail pharmacy in the same geographic area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of certificates of deposit, which are carried at amortized cost.

Noncapital Appropriations – Stevens County

The Hospital received approximately 7% and 8% of its financial support from county appropriations derived from property taxes levied by the County in 2020 and 2019, respectively. One hundred percent of these funds were used to support operations in both years.

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Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported for both workers' compensation and property and casualty risks.

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, determined using the first-in, first-out method, or net realizable value.

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 – 40 years
Building	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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Capital Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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.

Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. Subsequent to year-end, the Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

Net Position

Net position of the Hospital 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 purpose 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.

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Notes to Financial Statements
December 31, 2020 and 2019

Net Patient Service Revenue

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

Charity Care

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

Provider Relief Funds (CARES Act)

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

Income Taxes

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

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Notes to Financial Statements
December 31, 2020 and 2019

Note 2: 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 critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

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

Services rendered for long-term care facility residents are reimbursed under a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 43% and 44% 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 Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: 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.

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Notes to Financial Statements
December 31, 2020 and 2019

At December 31, 2020 and 2019, respectively, \$6,651,993 and \$140,604 of the Hospital's bank balances of \$7,244,634 and \$658,142 were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 6,651,993</u>	<u>\$ 140,604</u>

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	<u>\$ 6,747,607</u>	<u>\$ 595,906</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 6,744,066	\$ 590,659
Short-term certificates of deposit	<u>3,541</u>	<u>5,247</u>
	<u>\$ 6,747,607</u>	<u>\$ 595,906</u>

Note 4: 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, 2020 and 2019, consisted of:

	2020	2019
Medicare	\$ 473,108	\$ 609,720
Medicaid	270,357	335,363
Blue Cross	260,480	234,413
Other third-party payers	479,711	358,536
Patients	<u>1,033,322</u>	<u>1,035,249</u>
	2,516,978	2,573,281
Less allowance for uncollectible accounts	<u>723,000</u>	<u>807,000</u>
	<u>\$ 1,793,978</u>	<u>\$ 1,766,281</u>

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

Note 5: Capital Assets

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

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 103,580	\$ -	\$ -	\$ -	\$ 103,580
Buildings	24,774,627	-	(10,216)	-	24,764,411
Fixed equipment	3,066,683	54,000	(111,280)	-	3,009,403
Major moveable equipment	7,695,557	43,664	(1,648,523)	-	6,090,698
	<u>35,640,447</u>	<u>97,664</u>	<u>(1,770,019)</u>	<u>-</u>	<u>33,968,092</u>
Less accumulated depreciation					
Land improvements	91,398	3,196	-	-	94,594
Buildings	7,457,750	600,964	(10,216)	-	8,048,498
Fixed equipment	1,016,537	192,878	(111,280)	-	1,098,135
Major moveable equipment	7,370,780	95,895	(1,648,523)	-	5,818,152
	<u>15,936,465</u>	<u>892,933</u>	<u>(1,770,019)</u>	<u>-</u>	<u>15,059,379</u>
Capital assets, net	<u>\$ 19,703,982</u>	<u>\$ (795,269)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,908,713</u>

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 103,580	\$ -	\$ -	\$ -	\$ 103,580
Buildings	24,764,566	10,061	-	-	24,774,627
Fixed equipment	3,066,683	-	-	-	3,066,683
Major moveable equipment	7,569,229	126,328	-	-	7,695,557
	<u>35,504,058</u>	<u>136,389</u>	<u>-</u>	<u>-</u>	<u>35,640,447</u>
Less accumulated depreciation					
Land improvements	86,494	4,904	-	-	91,398
Buildings	6,856,536	601,214	-	-	7,457,750
Fixed equipment	823,428	193,109	-	-	1,016,537
Major moveable equipment	7,246,661	124,119	-	-	7,370,780
	<u>15,013,119</u>	<u>923,346</u>	<u>-</u>	<u>-</u>	<u>15,936,465</u>
Capital assets, net	<u>\$ 20,490,939</u>	<u>\$ (786,957)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,703,982</u>

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Note 6: Medical Malpractice Claims

The Hospital 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 7: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2020 and 2019:

2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 114,208	\$ -	\$ 30,322	\$ 83,886	\$ 30,935
PPP loan	-	1,920,300	-	1,920,300	1,490,875
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 114,208</u>	<u>\$ 1,920,300</u>	<u>\$ 30,322</u>	<u>\$ 2,004,186</u>	<u>\$ 1,521,810</u>
2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 143,931	\$ -	\$ 29,723	\$ 114,208	\$ 30,323
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 143,931</u>	<u>\$ -</u>	<u>\$ 29,723</u>	<u>\$ 114,208</u>	<u>\$ 30,323</u>

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

Capital Lease Obligations

The Hospital is obligated under leases for equipment and software that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Hospital. Assets under capital leases at December 31, 2020 and 2019, totaled \$0 and \$21,254, respectively, net of accumulated depreciation of \$297,560 and \$276,306, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 2.00% together with the present value of the future minimum lease payments as of December 31, 2020:

Year Ending December 31,	
2021	\$ 32,330
2022	32,330
2023	<u>21,553</u>
Total minimum lease payments	86,213
Less amount representing interest	<u>2,327</u>
Present value of future minimum lease payments	<u><u>\$ 83,886</u></u>

Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of \$1,920,300 in 2020. The loan has an interest rate of 1%, with monthly payments due starting 10 months after the 24-week covered period. Subsequent to year-end, the Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety.

Note 8: Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payrolls were 4% and 3%, respectively, for both 2020 and 2019. Contributions actually made by plan members aggregated \$152,287 and \$144,906 during 2020 and 2019, respectively. Contributions actually made by the Hospital aggregated \$204,745 and \$196,133 during 2020 and 2019, respectively.

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Note 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$101,542 and \$116,044 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: COVID-19 Pandemic & CARES Act Funding

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

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

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

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

In addition, the Hospital received \$4,543,377 in general and targeted Provider Relief Fund distributions, both as provided for under the *CARES Act*, a PPP loan of \$1,920,300, and other COVID-19 funding of \$261,746.

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

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

Provider Relief Fund

During 2020, the Hospital received \$4,543,377 of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2020, the Hospital recognized \$2,967,486 related to the Provider Relief Fund as revenues. The unrecognized amount of Provider Relief Fund distributions of \$1,575,891 is recorded as part of unearned revenue in the accompanying balance sheets.

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

Program (PPP) Loan

During 2020, the Hospital received a PPP loan of \$1,920,300 established by the *CARES Act* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the SBA, or lender; as a result of such audit, adjustment could be required to any revenue recognized. Subsequent to year-end, the Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

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Other COVID-19 Funding

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received and recognized \$100,000 on April 24, 2020, related to this special emergency grant. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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

Strengthening People and Revitalizing Kansas (SPARK) Program Funding

During 2020, the Hospital received \$158,746 of funding through the SPARK program. The Hospital recognized \$158,746, related to this funding at December 31, 2020, and these payments are recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 11: Future Change in Accounting Principle

Leases

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

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

Note 12: Subsequent Events

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

The Hospital received legal notice on February 10, 2021, 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 of the subsequent year.