Kiowa District Hospital

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Kiowa District Hospital
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Kiowa District Hospital
Kiowa, Kansas

Opinions

We have audited the financial statements of Kiowa District Hospital (Hospital), and its discretely presented component unit, Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Kiowa District Hospital and of its discretely presented component unit as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Kiowa District 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 Kiowa District 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 Kiowa District 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 Kiowa District Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Net Patient Service Revenues and Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
May 24, 2022

Kiowa District Hospital
Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash	$ 2,899,167	$ 3,548,452
Patient accounts receivable, net of allowance; 2021 - $474,000, 2020 - $325,000	921,445	508,005
Estimated amounts due from third-party payers	125,000	195,000
Supplies	363,469	317,245
Prepaid expenses and other	65,279	35,621
Property taxes receivable	783,283	783,262
Total current assets	5,157,643	5,387,585
Capital Assets, Net	8,822,053	8,051,054
Total assets	$ 13,979,696	$ 13,438,639
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 243,600	$ 180,194
Accounts payable	152,135	539,344
Accrued expenses	433,570	424,115
Unearned revenue	439,184	1,841,206
Total current liabilities	1,268,489	2,984,859
Long-term Debt	2,948,072	2,296,263
Total liabilities	4,216,561	5,281,122
Deferred Inflows of Resources - Property Taxes	783,283	783,262
Net Position		
Net investment in capital assets	5,630,381	5,574,597
Unrestricted	3,349,471	1,799,658
Total net position	8,979,852	7,374,255
Total liabilities, deferred inflows of resources and net position	$ 13,979,696	$ 13,438,639

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash	$ 354,749	$ 204,918
Restricted cash - current	28,020	391,768
Short-term certificate of deposit	33,530	33,463
Total assets	$ 416,299	$ 630,149
Net Assets		
Without donor restrictions	$ 388,279	$ 238,381
With donor restrictions - purpose restrictions	28,020	391,768
Total net assets	$ 416,299	$ 630,149

Kiowa District Hospital

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2021 - $494,113, 2020 - $238,673	$ 7,815,832	$ 6,993,445
Other	600,364	400,422
Total operating revenues	8,416,196	7,393,867
Operating Expenses		
Salaries and wages	5,480,189	5,005,949
Employee benefits	940,262	774,392
Purchased services and professional fees	898,440	726,040
Supplies and other	1,533,360	1,151,829
Drugs	408,351	367,667
Food	98,893	129,514
Insurance	82,596	62,967
Utilities and telephone	266,888	247,622
Repairs and maintenance	378,444	207,047
Depreciation	758,622	597,853
Total operating expenses	10,846,045	9,270,880
Operating Loss	(2,429,849)	(1,877,013)
Nonoperating Revenues (Expenses)		
Property taxes	822,152	1,053,415
Interest income	4,462	6,660
Interest expense	(87,542)	(97,441)
Noncapital grants and gifts	146,118	248,954
Provider Relief Funds (*CARES Act*)	2,502,221	1,885,705
Paycheck Protection Program (PPP) loan forgiveness	-	843,400
Total nonoperating revenues	3,387,411	3,940,693
Excess of Revenues Over Expenses Before Capital Grants and Gifts	957,562	2,063,680
Capital Grants and Gifts	648,035	50,000
Increase in Net Position	1,605,597	2,113,680
Net Position, Beginning of Year	7,374,255	5,260,575
Net Position, End of Year	$ 8,979,852	$ 7,374,255

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Activities
Years Ended December 31, 2021 and 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	$ 445,672	-	$ 445,672
Interest income	67	-	67
Total revenues, gains and other support	445,739	-	445,739
Expenses			
Contributions to Hospital	284,287	363,748	648,035
Fund raising expenses	4,201	-	4,201
Other expenses	7,353	-	7,353
Total expenses	295,841	363,748	659,589
Change in Net Assets	149,898	(363,748)	(213,850)
Net Assets, Beginning of Year	238,381	391,768	630,149
Net Assets, End of Year	$ 388,279	$ 28,020	$ 416,299

See Notes to Financial Statements

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	$ 13,382	$ 391,768	$ 405,150
Interest income	421	-	421
Total revenues, gains and other support	13,803	391,768	405,571
Expenses			
Contributions to Hospital	50,000	-	50,000
Fund raising expenses	1,250	-	1,250
Other expenses	843	-	843
Total expenses	52,093	-	52,093
Change in Net Assets	(38,290)	391,768	353,478
Net Assets, Beginning of Year	276,671	-	276,671
Net Assets, End of Year	$ 238,381	$ 391,768	$ 630,149

Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	$ 7,472,392	$ 6,993,175
Payments to suppliers and contractors	(3,731,997)	(3,089,158)
Payments to employees	(6,410,996)	(5,716,877)
Other receipts, net	(801,658)	2,241,628
Net cash provided by (used in) operating activities	(3,472,259)	428,768
Noncapital Financing Activities		
Property taxes supporting operations	822,152	1,053,415
Noncapital grants and gifts	146,118	248,954
Provider Relief Funds (*CARES Act*)	2,502,221	1,885,705
Proceeds from issuance of PPP loan	-	843,400
Net cash provided by noncapital financing activities	3,470,491	4,031,474
Capital and Related Financing Activities		
Capital grants and gifts	648,035	50,000
Proceeds from issuance on long-term debt	900,000	-
Principal paid on long-term debt	(184,785)	(194,045)
Interest paid on long-term debt	(76,471)	(100,590)
Purchase of capital assets	(1,938,758)	(1,349,066)
Net cash used in capital and related financing activities	(651,979)	(1,593,701)
Investing Activities		
Interest income	4,462	6,660
Net cash provided by investing activities	4,462	6,660
Increase (Decrease) in Cash	(649,285)	2,873,201
Cash, Beginning of Year	3,548,452	675,251
Cash, End of Year	$ 2,899,167	$ 3,548,452

Kiowa District Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (2,429,849)	$ (1,877,013)
Depreciation	758,622	597,853
Changes in operating assets and liabilities		
Patient accounts receivable, net	(413,440)	241,635
Estimated amounts due from and to third-party payers	70,000	(241,905)
Supplies and prepaid expenses	(75,882)	(148,004)
Accounts payable and accrued expenses	20,312	14,996
Unearned revenue	(1,402,022)	1,841,206
Net cash provided by (used in) operating activities	$ (3,472,259)	$ 428,768
Noncash Investing, Capital and Financing Activities		
Capital lease incurred for capital assets	$ -	$ 57,202
Capital assets included in accounts payable	$ -	$ 409,137
PPP loan forgiveness	$ -	$ 843,400

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	$ (213,850)	$ 353,478
Net cash provided by (used in) operating activities	(213,850)	353,478
Investing Activities		
Purchase of certificate of deposit	(67)	(432)
Net cash used in investing activities	(67)	(432)
(Decrease) Increase in Cash	(213,917)	353,046
Cash and Restricted Cash, Beginning of Year	596,686	243,640
Cash and Restricted Cash, End of Year	$ 382,769	$ 596,686
Reconciliation of Cash and Restricted Cash to the Balance Sheet		
Cash	$ 354,749	$ 204,918
Restricted cash	28,020	391,768
	$ 382,769	$ 596,686

Kiowa District Hospital
Notes to Financial Statements
December 31, 2021 and 2020

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

Nature of Operations and Reporting Entity

Kiowa District Hospital (the Hospital) was organized to provide acute health care services for the benefit of the community members, primarily in Barber County, Kansas. The Hospital's facilities are operated by a Board of Directors elected by the qualified voters of the Hospital District. The Hospital Division primarily earns revenues by providing inpatient and outpatient services to residents of Barber County, Kansas, and the surrounding communities. In addition, residential long-term care services are provided under a separate license by the Manor Division (Manor) of the Hospital's operations.

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 and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as property taxes, 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 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 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, 2021 and 2020, the Hospital had no cash equivalents.

Patient Accounts Receivable

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

Supplies

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

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 at their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 15 years
Buildings	5 – 40 years
Fixed equipment	3 – 25 years
Major moveable equipment	3 – 20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are realized as paid time off and 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 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 other than workers' compensation. Settled claims have not exceeded this 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 on the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on November 4, 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.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheets.

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 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 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 at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Property Taxes

The Hospital received approximately 6% in 2021 and 9% in 2020 of its financial support from property taxes. One hundred percent (100%) of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Provider Relief Funds (CARES Act)

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

Income Taxes

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

Foundation

Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its programs. The five-to-seven-member board of the Foundation is self-perpetuating and consists of area business and community members.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are historically used for the benefits of the Hospital. Because the relationship and level of support the Hospital receives from the Foundation, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2021 and 2020, the Foundation distributed $648,035 and $50,000 funds to the Hospital, respectively. The payments are recorded as capital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Note 2: Deposits

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

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

At December 31, 2021 and 2020, respectively, $2,770,125 and $3,073,183 of the Hospital's bank balances of $3,533,897 and $4,073,183 were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 2,770,125	$ 3,073,183

Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits	$ 2,899,167	$ 3,548,452
Included in the following balance sheet captions		
Cash	$ 2,899,167	$ 3,548,452

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, 2021 and 2020, consisted of:

	2021	2020
Medicare	$ 516,450	$ 205,126
Medicaid	74,741	146,027
Blue Cross	100,345	39,420
Other third-party payers	150,024	58,510
Patients	553,885	383,922
	1,395,445	833,005
Less allowance for uncollectible accounts	474,000	325,000
	$ 921,445	$ 508,005

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2021 and 2020, was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 38,867	$ -	$ -	$ -	$ 38,867
Land improvements	81,521	35,681	-	-	117,202
Buildings	7,039,051	-	-	1,922,683	8,961,734
Fixed equipment	2,051,147	404,269	-	-	2,455,416
Major moveable equipment	3,044,410	226,161	-	-	3,270,571
Construction in progress	1,204,702	863,510	-	(1,922,683)	145,529
	13,459,698	1,529,621	-	-	14,989,319
Less accumulated depreciation					
Land improvements	43,447	8,504	-	-	51,951
Buildings	1,959,394	303,661	-	-	2,263,055
Fixed equipment	1,099,787	209,147	-	-	1,308,934
Major moveable equipment	2,306,016	237,310	-	-	2,543,326
	5,408,644	758,622	-	-	6,167,266
Capital assets, net	$ 8,051,054	$ 770,999	$ -	$ -	$ 8,822,053

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 38,867	$ -	$ -	$ -	$ 38,867
Land improvements	81,521	-	-	-	81,521
Buildings	7,021,083	17,968	-	-	7,039,051
Fixed equipment	1,793,951	257,196	-	-	2,051,147
Major moveable equipment	2,661,802	382,608	-	-	3,044,410
Construction in progress	47,069	1,157,633	-		1,204,702
	11,644,293	1,815,405	-	-	13,459,698
Less accumulated depreciation					
Land improvements	35,834	7,613	-	-	43,447
Buildings	1,694,251	265,143	-	-	1,959,394
Fixed equipment	964,601	135,186	-	-	1,099,787
Major moveable equipment	2,116,105	189,911	-	-	2,306,016
	4,810,791	597,853	-	-	5,408,644
Capital assets, net	$ 6,833,502	$ 1,217,552	$ -	$ -	$ 8,051,054

Note 5: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2021	2020
Payable to suppliers and contractors	$ 152,135	$ 539,344
Payable to or on behalf of employees (including payroll taxes and benefits)	366,120	367,736
Bond interest payable	67,450	56,379
	$ 585,705	$ 963,459

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2021 and 2020:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	$ 104,500	$ -	$ 14,000	$ 90,500	$ 14,250
USDA Hospital Refunding Revenue Bond Series 2014	2,295,000	-	130,000	2,165,000	135,000
USDA Hospital Revenue Bond Series 2021	-	900,000	-	900,000	81,729
Capital lease obligations	76,957	-	40,785	36,172	12,621
Total long-term debt	$ 2,476,457	$ 900,000	$ 184,785	$ 3,191,672	$ 243,600

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	$ 118,000	$ -	$ 13,500	$ 104,500	$ 14,000
USDA Hospital Refunding Revenue Bond Series 2014	2,420,000	-	125,000	2,295,000	125,000
Capital lease obligations	75,300	57,202	55,545	76,957	41,194
Total long-term debt	$ 2,613,300	$ 57,202	$ 194,045	$ 2,476,457	$ 180,194

Public Building Commission Bonds Payable – 2012

The Public Building Commission (PBC) bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds, Series 2012, in the original amount of $4,000,000 dated August 15, 2012, which bear interest at 2.0% to 3.0%. The bonds are payable in annual installments beginning September 1, 2013 through September 1, 2027. Semiannual interest only payments are due beginning March 1, 2013 through September 1, 2027. In connection with the issuance of the bonds, the Hospital has entered into a sublease with Barber County, Kansas. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

The Hospital's debt service requirements for the PBC bonds as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	$ 16,516	$ 14,250	$ 2,266
2023	16,678	14,750	1,928
2024	16,326	14,750	1,576
2025	16,458	15,250	1,208
2026	16,326	15,500	826
2027	16,420	16,000	420
	$ 98,724	$ 90,500	$ 8,224

USDA Hospital Refunding Bond Series 2014

On April 15, 2014, Kiowa District Hospital issued United States Department of Agriculture (USDA) Hospital Refunding Revenue Bond, Series 2014, under the USDA Rural Development program in the amount of $3,000,000 and bearing interest at 3.375%. Principal and interest payments under this issue began April 15, 2015, and extend through April 15, 2034. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements for the USDA bonds as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	$ 208,069	$ 135,000	$ 73,069
2023	208,513	140,000	68,513
2024	208,788	145,000	63,788
2025	208,894	150,000	58,894
2026	208,831	155,000	53,831
2027-2031	1,042,313	855,000	187,313
2032-2034	624,825	585,000	39,825
	$ 2,710,233	$ 2,165,000	$ 545,233

USDA Hospital Revenue Bond Series 2021

On March 26, 2021, Kiowa District Hospital issued United States Department of Agriculture (USDA) Hospital Revenue Bond, Series 2021, under the USDA Rural Development program in the amount of $900,000 and bearing interest at 2.125%. Principal and interest payments under this issue began March 26, 2022, and extend through March 26, 2031. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements for the USDA bonds as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	$ 100,854	$ 81,729	$ 19,125
2023	100,854	83,466	17,388
2024	100,854	85,197	15,657
2025	100,854	87,050	13,804
2026	100,854	88,900	11,954
2027-2031	544,270	473,658	70,612
	$ 1,048,540	$ 900,000	$ 148,540

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2021 and 2020, totaled $37,142 and $61,066, respectively, net of accumulated depreciation of $20,060 and $235,186, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates between 0% to 5.63% with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,		
2022	$	14,141
2023		10,789
2024		10,789
2025		3,392
Total minimum lease payments		39,111
Less amount representing interest		2,939
Present value of future minimum lease payments	$	36,172

Note 7: Medical Malpractice Coverage and 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 near term.

Note 8: Net Patient Service Revenues

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). 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. 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 point in the future.

Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. 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 mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 76% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended December 31, 2021 and 2020. 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 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $30,000 and $1,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: Pension Plan

The Hospital established a 457(b) deferred compensation plan covering substantially all employees of the Hospital, UMB Bank is the Trustee of the trust established to hold the plan assets. Plan contributions are made by participating employees. The Plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contributions actually made by plan members and the Hospital aggregated $198,483 and $71,643 during 2021 and $179,288 and $58,170 during 2020, respectively. The fair market value of employee investments at December 31, 2021 and 2020, were $2,244,049 and $1,835,460, respectively. These amounts are not reported as assets or liabilities of the Hospital. The Hospital does not control the plan assets.

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.

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.

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

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

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Hospital received $1,050,670 and $3,726,911, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2021 and 2020, the Hospital recognized $2,502,221 and $1,885,705, 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. As of the years ended December 31, 2021 and 2020, the unrecognized amount of Provider Relief Fund distributions of $389,655 and $1,841,206, respectively, is recorded as a component of unearned revenue in the accompanying balance sheets.

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

Paycheck Protection Program (PPP) Loan

During 2021, the Hospital received a PPP loan of $843,400 established by the *CARES Act* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the SBA, or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on November 4, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Other COVID-19 Funding

In November 2021, the Hospital received and recognized $39,797 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During the years ended 2021 and 2020, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital recognized $37,413 and $71,347 for the years-ended December 31, 2021 and 2020, respectively, related to SHIP grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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

During the year ended December 31, 2020, 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.

During the year ended December 31, 2020, the Hospital received $51,133 of funding through the Strengthening People and Revitalizing Kansas (SPARK) program. The Hospital recognized $51,133, 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 12: Future Change in Accounting Principle

Leases

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

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

Note 13: Friends of Kiowa District Hospital and Manor Foundation, Inc.

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for improving access to and enhancing the quality of healthcare services in Kiowa, Kansas and the surrounding area.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2021 and 2020

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, the Foundation had no cash equivalents.

At December 31, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately $105,000.

Certificate of Deposit

The Foundation reports certificates of deposits at amortized cost.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At December 31, 2021 and 2020, there were no net assets with donor restrictions.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations have not been reflected in the financial statements.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Related Entity

The Foundation works closely with the Hospital. Facilities and start-up funds were provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees/Directors.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at both December 31, 2021 and 2020.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Note 14: 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.

Supplementary Information

Kiowa District Hospital
Net Patient Service Revenues
Years Ended December 31, 2021 and 2020

	2021	2020
Hospital Revenues		
Inpatient	$ 1,729,720	$ 1,662,416
Outpatient	3,701,727	2,725,361
Clinic Revenues	905,746	652,230
Long-term Care Facility Revenues	1,190,939	1,473,646
Subtotal	7,528,132	6,513,653
Plus: Contractual Adjustments	781,813	718,465
Less: Provision for Uncollectible Accounts	(494,113)	(238,673)
Net Patient Service Revenues	$ 7,815,832	$ 6,993,445

Kiowa District Hospital

Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget

December 31, 2021

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenues	$ 7,472,392	$ 7,638,700	$ (166,308)
Other revenue	600,364	241,744	358,620
Total revenues	8,072,756	7,880,444	192,312
Operating expenses	12,179,583	11,810,859	368,724
Interest paid	76,471	-	76,471
Operating expenses	12,256,054	11,810,859	445,195
Operating loss	(4,183,298)	(3,930,415)	(252,883)
Property taxes revenue	822,152	783,262	38,890
Other nonoperating revenues	1,898,814	510,000	1,388,814
Total nonoperating revenues	2,720,966	1,293,262	1,427,704
Deficiency of revenues over expenses	$ (1,462,332)	$ (2,637,153)	$ 1,174,821

Note: The above schedule reflects a comparison of current year operations and the tax budget.