

Lane County Hospital
A Component Unit of Lane County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Lane County Hospital
A Component Unit of Lane County, Kansas
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Lane County Hospital
Dighton, Kansas

Opinion

We have audited the accompanying financial statements of Lane County Hospital, a component unit of Lane County, Kansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Lane County Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Lane County Hospital as of December 31, 2021 and 2020, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Lane County 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 Lane County 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.

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

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

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
May 9, 2022

Lane County Hospital
A Component Unit of Lane County, Kansas
Balance Sheets
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash	\$ 1,570,671	\$ 3,754,739
Patient accounts receivable, net of allowance; 2021 – \$195,531; 2020 – \$158,451	1,561,373	1,067,240
Supplies	90,770	54,218
Prepaid expenses and other	502,285	463,278
	<hr/>	<hr/>
Total current assets	3,725,099	5,339,475
	<hr/>	<hr/>
Noncurrent Cash		
Board designated for capital acquisitions	516,846	211,253
Restricted by donors for specific operating activities	14,482	27,528
	<hr/>	<hr/>
	531,328	238,781
	<hr/>	<hr/>
Capital Assets, Net	1,696,137	1,745,599
	<hr/>	<hr/>
Other Assets	145,380	145,380
	<hr/>	<hr/>
Total assets	\$ 6,097,944	\$ 7,469,235
	<hr/> <hr/>	<hr/> <hr/>

Liabilities and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 12,356	\$ 175,865
Accounts payable	113,812	292,777
Accrued salaries and wages	187,302	273,686
Accrued vacation	172,547	170,338
Other accrued expenses	162,533	193,045
Unearned revenue	70,719	1,542,709
Estimated amounts due to third-party payers	585,000	202,000
Advance from Medicare	-	218,894
Total current liabilities	1,304,269	3,069,314
Advance from Medicare	-	1,326,237
Long-term Debt	12,695	461,769
Total liabilities	1,316,964	4,857,320
Net Position		
Net investment in capital assets	1,671,086	1,650,065
Restricted - expendable for		
Specific operating activities	14,482	27,528
Unrestricted	3,095,412	934,322
Total net position	4,780,980	2,611,915
Total liabilities and net position	\$ 6,097,944	\$ 7,469,235

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$138,223; 2020 – \$64,378	\$ 6,132,176	\$ 5,251,578
Other	412,018	448,696
	<u>6,544,194</u>	<u>5,700,274</u>
Total operating revenues		
	<u>6,544,194</u>	<u>5,700,274</u>
Operating Expenses		
Salaries and wages	3,519,845	3,169,075
Employee benefits	863,660	784,634
Supplies and other	3,050,309	2,707,029
Depreciation	274,536	118,310
	<u>7,708,350</u>	<u>6,779,048</u>
Total operating expenses		
	<u>7,708,350</u>	<u>6,779,048</u>
Operating Loss	<u>(1,164,156)</u>	<u>(1,078,774)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Lane County	590,531	539,725
Interest income	5,835	8,922
Interest expense	(1,855)	(2,476)
Noncapital grants and gifts	224,726	124,095
Provider Relief Funds (<i>CARES Act</i>)	1,971,884	1,176,320
Paycheck Protection Program (PPP) loan forgiveness	542,100	-
	<u>3,333,221</u>	<u>1,846,586</u>
Total nonoperating revenues		
	<u>3,333,221</u>	<u>1,846,586</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	2,169,065	767,812
Capital Grants and Gifts	<u>-</u>	<u>200,000</u>
Increase in Net Position	2,169,065	967,812
Net Position, Beginning of Year	<u>2,611,915</u>	<u>1,644,103</u>
Net Position, End of Year	<u><u>\$ 4,780,980</u></u>	<u><u>\$ 2,611,915</u></u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients and third-party payers	\$ 4,475,912	\$ 6,836,324
Payments to suppliers	(4,012,356)	(3,827,049)
Payments to and on behalf of employees	(3,634,532)	(2,985,014)
Other receipts (payments), net	(1,059,972)	1,991,405
	<u>(4,230,948)</u>	<u>2,015,666</u>
Net cash provided by (used in) operating activities		
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Lane County	590,531	539,725
Noncapital grants and gifts	224,726	124,095
Provider Relief Funds (<i>CARES Act</i>)	1,971,884	1,176,320
Proceeds from issuance of long-term debt	-	542,100
	<u>2,787,141</u>	<u>2,382,240</u>
Net cash provided by noncapital financing activities		
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	-	200,000
Principal paid on long-term debt	(70,483)	(59,188)
Interest payments on long-term debt	(1,855)	(2,476)
Proceeds from disposal of capital assets	-	2,807
Purchases of capital assets	(381,211)	(940,975)
	<u>(453,549)</u>	<u>(799,832)</u>
Net cash used in capital and related financing activities		
Cash Flows From Investing Activities		
Interest income	5,835	8,922
	<u>5,835</u>	<u>8,922</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash	(1,891,521)	3,606,996
Cash, Beginning of Year	3,993,520	386,524
Cash, End of Year	<u>\$ 2,101,999</u>	<u>\$ 3,993,520</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,570,671	\$ 3,754,739
Cash in noncurrent cash	531,328	238,781
	<u>\$ 2,101,999</u>	<u>\$ 3,993,520</u>
Total cash		
	<u>\$ 2,101,999</u>	<u>\$ 3,993,520</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,164,156)	\$ (1,078,774)
Depreciation	274,536	118,310
Loss on disposal of capital assets	-	7,000
Provision for uncollectible accounts	138,223	64,378
Changes in operating assets and liabilities		
Patient accounts receivable	(632,356)	(246,763)
Estimated amounts due from and to third-party payers	(1,162,131)	1,767,131
Supplies	(36,552)	10,396
Prepaid expenses and other	(39,007)	(367,097)
Accounts payable and accrued expenses	(137,515)	198,376
Unearned revenue	<u>(1,471,990)</u>	<u>1,542,709</u>
Net cash provided by (used in) operating activities	<u>\$ (4,230,948)</u>	<u>\$ 2,015,666</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ -	\$ 37,000
Capital assets acquisitions included in accounts payable	\$ -	\$ 156,137
PPP loan forgiveness	\$ 542,100	\$ -

Lane County Hospital
A Component Unit of Lane County, Kansas
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

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an appointed Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County 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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents for the years ended December 31, 2021 and 2020.

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.

Lane County Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Supplies

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

Capital Assets

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

The following estimated useful lives are being used by the Hospital:

Land improvements	5-50 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Capital Asset Impairment

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

Lane County Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation and employee health and dental claims. 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 upon 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 February 24, 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.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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.

Noncapital Appropriations – Lane County

The Hospital received approximately 6% and 7% in 2021 and 2020, respectively, of its financial support from Lane County property tax levy, sales taxes and miscellaneous appropriations. 100% of tax support is used for operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

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, if any, is recorded as unearned revenue in the accompanying balance sheets.

Lane County Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Income Taxes

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

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, \$1,862,859 and \$4,451,020 of the Hospital's bank balances of \$2,112,859 and \$4,701,020 were exposed to custodial credit risk as follows:

	<u>2021</u>	<u>2020</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 1,862,859</u>	<u>\$ 4,451,020</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Summary of Carrying Values

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

	<u>2021</u>	<u>2020</u>
Carrying value		
Deposits	\$ 2,101,799	\$ 3,993,320
Petty cash	<u>200</u>	<u>200</u>
	<u><u>\$ 2,101,999</u></u>	<u><u>\$ 3,993,520</u></u>
Included in the following balance sheet captions		
Cash	\$ 1,570,671	\$ 3,754,739
Board designated for capital acquisitions	516,846	211,253
Restricted by donors for specific operating activities	<u>14,482</u>	<u>27,528</u>
	<u><u>\$ 2,101,999</u></u>	<u><u>\$ 3,993,520</u></u>

Note 3: Patient Accounts Receivable

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

	<u>2021</u>	<u>2020</u>
Medicare	\$ 1,270,012	\$ 763,346
Medicaid	23,102	11,085
Blue Cross	103,427	47,470
Other third-party payers	58,285	90,640
Self-pay	<u>302,078</u>	<u>313,150</u>
	1,756,904	1,225,691
Less allowance for uncollectible accounts	<u>(195,531)</u>	<u>(158,451)</u>
	<u><u>\$ 1,561,373</u></u>	<u><u>\$ 1,067,240</u></u>

Lane County Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 29,188	\$ 2,780	\$ -	\$ -	\$ 31,968
Land improvements	54,592	12,000	(1,960)	-	64,632
Buildings	3,077,207	112,564	-	-	3,189,771
Fixed equipment	891,117	-	-	-	891,117
Major moveable equipment	1,383,544	97,730	(11,644)	-	1,469,630
	<u>5,435,648</u>	<u>225,074</u>	<u>(13,604)</u>	<u>-</u>	<u>5,647,118</u>
Less accumulated depreciation					
Land improvements	37,577	3,626	(1,960)	-	39,243
Buildings	2,378,384	59,556	-	-	2,437,940
Fixed equipment	640,040	43,333	-	-	683,373
Major moveable equipment	634,048	168,021	(11,644)	-	790,425
	<u>3,690,049</u>	<u>274,536</u>	<u>(13,604)</u>	<u>-</u>	<u>3,950,981</u>
Capital Assets, Net	<u>\$ 1,745,599</u>	<u>\$ (49,462)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,696,137</u>
	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 29,188	\$ -	\$ -	\$ -	\$ 29,188
Land improvements	54,592	-	-	-	54,592
Buildings	2,835,787	-	-	241,420	3,077,207
Fixed equipment	770,868	108,418	(38,108)	49,939	891,117
Major moveable equipment	745,061	748,293	(109,810)	-	1,383,544
Construction in progress	22,031	269,328	-	(291,359)	-
	<u>4,457,527</u>	<u>1,126,039</u>	<u>(147,918)</u>	<u>-</u>	<u>5,435,648</u>
Less accumulated depreciation					
Land improvements	34,284	3,293	-	-	37,577
Buildings	2,319,658	58,726	-	-	2,378,384
Fixed equipment	646,375	24,773	(31,108)	-	640,040
Major moveable equipment	709,533	31,518	(107,003)	-	634,048
	<u>3,709,850</u>	<u>118,310</u>	<u>(138,111)</u>	<u>-</u>	<u>3,690,049</u>
Capital Assets, Net	<u>\$ 747,677</u>	<u>\$ 1,007,729</u>	<u>\$ (9,807)</u>	<u>\$ -</u>	<u>\$ 1,745,599</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Note 5: Long-term Obligations

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

2021						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
PPP loan payable to bank	\$ 542,100	\$ -	\$ 542,100	\$ -	\$ -	\$ -
Capital lease obligations	95,534	-	70,483	25,051	12,356	12,695
	<u>\$ 637,634</u>	<u>\$ -</u>	<u>\$ 612,583</u>	<u>\$ 25,051</u>	<u>\$ 12,356</u>	<u>\$ 12,695</u>
2020						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
PPP loan payable to bank	\$ -	\$ 542,100	\$ -	\$ 542,100	\$ 121,372	\$ 420,728
Capital lease obligations	117,722	37,000	59,188	95,534	54,493	41,041
	<u>\$ 117,722</u>	<u>\$ 579,100</u>	<u>\$ 59,188</u>	<u>\$ 637,634</u>	<u>\$ 175,865</u>	<u>\$ 461,769</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 \$542,100 in 2020. The loan has an interest rate of 1%, with monthly payments due starting ten months after the end of the covered period, which the Hospital elected to be 24 weeks after receipt of the loan. The Hospital received legal notice on February 24, 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.

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Capital assets include the following property under capital leases at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 37,000	\$ 248,641
Accumulated depreciation	<u>(21,583)</u>	<u>(46,225)</u>
	<u><u>\$ 15,417</u></u>	<u><u>\$ 202,416</u></u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.75% together with the present value of the future minimum lease payments as of December 31, 2021:

<u>Year Ending December 31,</u>	
2022	\$ 13,045
2023	<u>13,045</u>
Total minimum lease payments	26,090
Less amount representing interest	<u>1,039</u>
Present value of future minimum lease payments	<u><u>\$ 25,051</u></u>

Note 6: Professional Liability Coverage and Claims

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

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

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Note 7: Net Patient Service Revenue

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

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

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. 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 85% and 82% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, 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 case rates and discounts from established charges.

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Note 8: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$384,081 and \$430,668 for the years ending December 31, 2021 and 2020, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$404,979 and \$335,638 for the years ending December 31, 2021 and 2020, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 9: Pension Plans

The Hospital maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who are at least 18 years of age and have completed one year of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The Hospital also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$142,300 and \$142,300 during 2021 and \$138,591 and \$138,591 during 2020, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$64,874 and \$51,911 during 2021 and 2020, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

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Note 10: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2021 and 2020, were \$493,689 and \$474,291, respectively. There were no amounts due to GPHA at December 31, 2021 and 2020, respectively.

Note 11: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2021 and 2020.

Note 12: COVID-19 Pandemic & CARES Act Funding

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

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

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

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

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

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Hospital received \$519,894 and \$2,699,029, 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 \$1,971,884 and \$1,176,320, 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. The unrecognized amount of Provider Relief Fund distributions of \$70,719 and \$1,522,709 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

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.

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Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the *CARES Act*, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withheld amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

During the year ended December 31, 2020, the Hospital received \$1,545,131 from these accelerated Medicare payment requests. On March 24, 2021, the Hospital paid back the advances from Medicare in full. For the year ended December 31, 2020, the unapplied amount of accelerated Medicare payment requests is recorded under the caption advance from Medicare in the accompanying balance sheets and classified as a current and a long-term liability based upon payback provisions in effect at December 31, 2020.

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Hospital received a PPP loan of \$542,100 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 February 24, 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.

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Other COVID-19 Funding

During the years ended December 31, 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 received \$63,613 and \$20,000 during 2021 and 2020, respectively, related to this grant. The Hospital recognized \$83,613 and \$0 of revenue during 2021 and 2020, respectively, related to this 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. For the years ended December 31, 2021 and 2020, the unrecognized amount of the SHIP grant distributions of \$0 and \$20,000 is recorded as a component of unearned revenue in the accompanying balance sheets.

In October 2021, the Hospital received and recognized \$99,493 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.

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, 2020. 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.

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Note 13: Subsequent Events

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

Note 14: Future Change in Accounting Principle

Leases

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

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