# Medicine Lodge Memorial Hospital

## A Component Unit of Medicine Lodge Township, Kansas

## Independent Auditor's Report and Financial Statements

December 31, 2023 and 2022

**Medicine Lodge Memorial Hospital**
**A Component Unit of Medicine Lodge Township, Kansas**
**Contents**
**December 31, 2023 and 2022**

## Contents


**Independent Auditor's Report** ..... 1

**Financial Statements**

Balance Sheets ..... 3

Statements of Revenues, Expenses and Changes in Net Position ..... 4

Statements of Cash Flows ..... 5

Notes to Financial Statements ..... 7

FORVIS

1551 N. Waterfront Parkway, Suite 300 / Wichita, KS 67206
**P** 316.265.2811 / **F** 316.265.9405
forvis.com

# Independent Auditor's Report

Board of Trustees
Medicine Lodge Memorial Hospital
Medicine Lodge, Kansas

## *Opinion*

We have audited the financial statements of Medicine Lodge Memorial Hospital, a component unit of Medicine Lodge Township, Kansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Medicine Lodge Memorial 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 Medicine Lodge Memorial Hospital as of December 31, 2023 and 2022, 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 Medicine Lodge Memorial 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.

## *Emphasis of Matter*

As discussed in *Note 13* to the financial statements, during the year ended December 31, 2023, Medicine Lodge Memorial Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

## *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 Medicine Lodge Memorial 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.

FORVIS is a trademark of FORVIS, LLP, registered with the U.S. Patent and Trademark Office.

PRAXITY
A member of the Praxity Global Alliance

### *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 Medicine Lodge Memorial 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 Medicine Lodge Memorial 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.

FORVIS, LLP

**Wichita, Kansas**
**May 22, 2024**

**Medicine Lodge Memorial Hospital**
**A Component Unit of Medicine Lodge Township, Kansas**
**Balance Sheets**
**December 31, 2023 and 2022**

| | 2023 | 2022 (As Restated) |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 2,116,761 | $ 2,219,256 |
| Patient accounts receivable, net of allowance; 2023 – $702,515; 2022 – $539,299 | 1,140,871 | 1,553,588 |
| Property and sales tax receivable | 57,950 | 60,444 |
| Estimated amounts due from third-party payers | 389,000 | - |
| Supplies | 249,058 | 224,066 |
| Prepaid expenses and other | 86,451 | 67,975 |
| Other receivables | 35,607 | 63,168 |
| Total current assets | 4,075,698 | 4,188,497 |
| **Noncurrent Cash and Investments** | | |
| Designated by Board of Trustees | 3,729,334 | 3,667,029 |
| Restricted by donors for specific operating activities | 24,441 | 100 |
| Ranch land and mineral interests, at cost | 89,078 | 89,078 |
| | 3,842,853 | 3,756,207 |
| **Capital Assets, Net** | 5,577,116 | 6,469,233 |
| **Subscription Asset, Net** | 597,816 | 975,383 |
| Total assets | $ 14,093,483 | $ 15,389,320 |

*See Notes to Financial Statements*

| | 2023 | 2022 |
|---|---|---|
| **Liabilities and Net Position** | | *(As Restated)* |
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 181,614 | $ 175,943 |
| Current maturities of subscription liability | 378,591 | 363,827 |
| Accounts payable | 157,754 | 145,411 |
| Accrued salaries and wages | 193,413 | 160,538 |
| Accrued vacation | 407,386 | 404,132 |
| Other accrued expenses | 151,285 | 101,587 |
| Accrued bond interest | 33,086 | 34,822 |
| Estimated amounts due to third-party payers | - | 146,000 |
| Total current liabilities | 1,503,129 | 1,532,260 |
| **Long-term Debt** | 3,178,382 | 3,359,996 |
| **Subscription Liability** | 260,893 | 639,484 |
| Total liabilities | 4,942,404 | 5,531,740 |
| **Net Position** | | |
| Net investment in capital assets | 2,175,452 | 2,905,366 |
| Restricted - expendable for specific operating activities | 24,441 | 100 |
| Unrestricted | 6,951,186 | 6,952,114 |
| Total net position | 9,151,079 | 9,857,580 |
| Total liabilities and net position | $ 14,093,483 | $ 15,389,320 |

**Medicine Lodge Memorial Hospital**
**A Component Unit of Medicine Lodge Township, Kansas**
**Statements of Revenues, Expenses and Changes in Net Position**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 (As Restated) |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue, net of provision for uncollectible accounts, 2023 – $408,756; 2022 – $350,066 | $ 10,066,953 | $ 10,793,785 |
| 340B Drug Program | 830,928 | 766,495 |
| Other | 98,107 | 50,282 |
| Total operating revenues | 10,995,988 | 11,610,562 |
| **Operating Expenses** | | |
| Salaries and wages | 5,939,577 | 6,311,412 |
| Employee benefits | 1,234,416 | 1,323,809 |
| Purchased services and professional fees | 1,274,049 | 1,321,183 |
| Supplies and other | 2,597,811 | 2,643,523 |
| Depreciation | 988,032 | 993,887 |
| Amortization | 377,567 | 377,567 |
| Total operating expenses | 12,411,452 | 12,971,381 |
| **Operating Loss** | (1,415,464) | (1,360,819) |
| **Nonoperating Revenues (Expenses)** | | |
| Noncapital appropriations - County and City | 708,854 | 725,339 |
| Interest income | 77,757 | 19,738 |
| Loss on disposal of capital assets | - | (16,025) |
| Interest expense | (149,149) | (170,108) |
| Noncapital grants and gifts | 46,855 | 390,171 |
| Ranch income, net of expense | 24,646 | 46,435 |
| Provider Relief Funds (*CARES Act*) | - | 1,119,638 |
| Total nonoperating revenues | 708,963 | 2,115,188 |
| **Increase (Decrease) in Net Position** | (706,501) | 754,369 |
| **Net Position, Beginning of Year** | 9,857,580 | 9,103,211 |
| **Net Position, End of Year** | $ 9,151,079 | $ 9,857,580 |

**Medicine Lodge Memorial Hospital**
**A Component Unit of Medicine Lodge Township, Kansas**
**Statements of Cash Flows**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 (As Restated) |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from and on behalf of patients | $ 9,944,670 | $ 10,964,758 |
| Payments to suppliers and contractors | (5,137,401) | (5,310,511) |
| Payments to employees | (5,855,486) | (6,300,826) |
| Other receipts, net | 956,596 | 656,630 |
| Net cash provided by (used in) operating activities | (91,621) | 10,051 |
| **Cash Flows from Noncapital Financing Activities** | | |
| Noncapital appropriations supporting operations | 711,348 | 712,559 |
| Noncapital grants and gifts | 46,855 | 390,171 |
| Provider Relief Funds (*CARES Act*) | - | 1,119,638 |
| Net cash provided by noncapital financing activities | 758,203 | 2,222,368 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Principal paid on long-term debt | (175,943) | (204,590) |
| Interest paid on long-term debt | (116,976) | (123,747) |
| Purchases of capital assets | (95,915) | (470,605) |
| Principal paid on subscription liability | (363,827) | (349,639) |
| Interest paid on subscription liability | (32,173) | (46,361) |
| Net cash used in capital and related financing activities | (784,834) | (1,194,942) |
| **Cash Flows from Investing Activities** | | |
| Ranch operations | 24,646 | 46,435 |
| Interest income received | 77,757 | 19,738 |
| Net cash provided by investing activities | 102,403 | 66,173 |
| **Increase (Decrease) in Cash** | (15,849) | 1,103,650 |
| **Cash, Beginning of Year** | 5,886,385 | 4,782,735 |
| **Cash, End of Year** | $ 5,870,536 | $ 5,886,385 |
| **Reconciliation of Cash to the Balance Sheets** | | |
| Cash | $ 2,116,761 | $ 2,219,256 |
| Noncurrent cash designated by Board of Trustees | 3,729,334 | 3,667,029 |
| Noncurrent cash restricted by donors | 24,441 | 100 |
| Total cash | $ 5,870,536 | $ 5,886,385 |

**Medicine Lodge Memorial Hospital**
**A Component Unit of Medicine Lodge Township, Kansas**
**Statements of Cash Flows (Continued)**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating loss | $ (1,415,464) | $ (1,360,819) |
| Depreciation | 988,032 | 993,887 |
| Amortization | 377,567 | 377,567 |
| Provision for uncollectible accounts | 408,756 | 350,066 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 3,961 | (575,643) |
| Estimated amounts due from and to third-party payers | (535,000) | 396,550 |
| Supplies | (24,992) | 30,830 |
| Prepaid expenses and other | (18,476) | (5,299) |
| Other receivables | 27,561 | (35,041) |
| Accounts payable and accrued expenses | 96,434 | (36,941) |
| Unearned revenue | - | (125,106) |
| Net cash provided by (used in) operating activities | $ (91,621) | $ 10,051 |

## Note 1. Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations and Reporting Entity*

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

### *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 (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 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. There were no cash equivalents for the years ended December 31, 2023 and 2022.

### *Patient Accounts Receivable*

The Hospital reports patient accounts receivable for the 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.

### *Noncurrent Cash and Investments*

As of December 31, 2023 and 2022, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

### *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 and leasehold improvements 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 | 20 years |
| Buildings | 10-50 years |
| Fixed equipment | 10-20 years |
| Moveable equipment | 5-20 years |

### *Subscription Assets*

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made before, the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

### *Capital and Subscription Asset Impairment*

The Hospital evaluates capital and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or subscription asset has occurred. If a capital or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

### *Compensated Absences*

Hospital policies permit most employees to accumulate vacation 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. 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except 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 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.

### *Net Position*

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

- Net investment in capital assets consists of capital and subscription assets net of accumulated depreciation and amortization and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

### *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. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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 – County and City*

The Hospital received approximately 6% and 5% of its financial support from noncapital appropriations derived from property and sales taxes in 2023 and 2022, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

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

Appropriations derived from sales tax revenue are recognized based on sales tax collected by the Township'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.

### *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.

## 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, 2023 and 2022, respectively, $5,360,888 and $5,653,109 of the Hospital's bank balances of $5,925,731 and $5,954,140 were exposed to custodial credit risk as follows:

| | 2023 | 2022 |
|---|---|---|
| Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name | $ 5,360,888 | $ 5,653,109 |

### *Summary of Carrying Values*

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

| | 2023 | 2022 |
|---|---|---|
| Carrying value | | |
| Deposits | $ 5,869,676 | $ 5,885,525 |
| Petty cash | 860 | 860 |
| | $ 5,870,536 | $ 5,886,385 |
| Included in the following balance sheet captions | | |
| Cash in current assets | $ 2,116,761 | $ 2,219,256 |
| Designated by Board of Trustees | 3,729,334 | 3,667,029 |
| Restricted by donors | 24,441 | 100 |
| | $ 5,870,536 | $ 5,886,385 |

## 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:

| | 2023 | 2022 |
|---|---|---|
| Medicare | $ 647,535 | $ 1,049,078 |
| Medicaid | 31,938 | 55,139 |
| Blue Cross | 128,223 | 131,421 |
| Other third-party payers | 351,198 | 215,478 |
| Self-pay | 684,492 | 641,771 |
| | 1,843,386 | 2,092,887 |
| Less allowance for uncollectible accounts | (702,515) | (539,299) |
| | $ 1,140,871 | $ 1,553,588 |

## Note 4. Capital and Subscription Assets

Capital assets activity for the years ended December 31 was:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | $ 11,129 | $ - | $ - | $ - | $ 11,129 |
| Land improvements | 277,904 | - | - | - | 277,904 |
| Buildings | 10,872,864 | 56,361 | - | - | 10,929,225 |
| Fixed equipment | 1,659,871 | - | - | - | 1,659,871 |
| Major moveable equipment | 3,196,831 | 39,554 | - | 48,732 | 3,285,117 |
| Construction in progress | 48,732 | - | - | (48,732) | - |
| | 16,067,331 | 95,915 | - | - | 16,163,246 |
| Less accumulated depreciation | | | | | |
| Land improvements | 171,187 | 10,477 | - | - | 181,664 |
| Buildings | 5,901,513 | 560,468 | - | - | 6,461,981 |
| Fixed equipment | 1,181,816 | 77,825 | - | - | 1,259,641 |
| Major moveable equipment | 2,343,582 | 339,262 | - | - | 2,682,844 |
| | 9,598,098 | 988,032 | - | - | 10,586,130 |
| Capital Assets, Net | $ 6,469,233 | $ (892,117) | $ - | $ - | $ 5,577,116 |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | $ 11,129 | $ - | $ - | $ - | $ 11,129 |
| Land improvements | 259,904 | 18,000 | - | - | 277,904 |
| Buildings | 10,693,249 | 179,615 | - | - | 10,872,864 |
| Fixed equipment | 1,635,421 | 24,450 | | - | 1,659,871 |
| Major moveable equipment | 3,022,696 | 199,808 | 25,673 | - | 3,196,831 |
| Construction in progress | - | 48,732 | - | - | 48,732 |
| | 15,622,399 | 470,605 | 25,673 | - | 16,067,331 |
| Less accumulated depreciation | | | | | |
| Land improvements | 161,044 | 10,143 | | - | 171,187 |
| Buildings | 5,329,352 | 572,161 | | - | 5,901,513 |
| Fixed equipment | 1,099,237 | 82,579 | | - | 1,181,816 |
| Major moveable equipment | 2,024,226 | 329,004 | 9,648 | - | 2,343,582 |
| | 8,613,859 | 993,887 | 9,648 | - | 9,598,098 |
| Capital Assets, Net | $ 7,008,540 | $ (523,282) | $ 16,025 | $ - | $ 6,469,233 |

Subscription assets activity for the years ended December 31 was:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Subscription IT assets | $ 1,352,950 | $ - | $ - | $ - | $ 1,352,950 |
| Less accumulated amortization | | | | | |
| Subscription IT assets | 377,567 | 377,567 | - | - | 755,134 |
| Subscription Assets, Net | $ 975,383 | $ (377,567) | $ - | $ - | $ 597,816 |

| | 2022 - *As Restated* | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Subscription IT assets | $ 1,352,950 | $ - | $ - | $ - | $ 1,352,950 |
| Less accumulated amortization | | | | | |
| Subscription IT assets | - | 377,567 | - | - | 377,567 |
| Subscription Assets, Net | $ 1,352,950 | $ (377,567) | $ - | $ - | $ 975,383 |

## Note 5. Professional Liability Coverage and Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for the policy years ending December 31, 2023 and 2022. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for the policy years ending December 31, 2023 and 2022.

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.

## Note 6. Long-term Obligations

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

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Public Building Commission bonds payable - 2021 | $ 94,500 | $ - | $ 22,750 | $ 71,750 | $ 23,250 |
| USDA Hospital Refunding Revenue Bond Series 2014 | 3,441,439 | - | 153,193 | 3,288,246 | 158,364 |
| Subscription liabilities | 1,003,311 | - | 363,827 | 639,484 | 378,591 |
| | $ 4,539,250 | $ - | $ 539,770 | $ 3,999,480 | $ 560,205 |

| | 2022 - *As Restated* | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Public Building Commission bonds payable - 2021 | $ 116,250 | $ - | $ 21,750 | $ 94,500 | $ 22,750 |
| USDA Hospital Refunding Revenue Bond Series 2014 | 3,589,631 | - | 148,192 | 3,441,439 | 153,193 |
| Subscription liabilities | 1,352,950 | - | 349,639 | 1,003,311 | 363,827 |
| Financed purchase obligations | 34,648 | - | 34,648 | - | - |
| | $ 5,093,479 | $ - | $ 554,229 | $ 4,539,250 | $ 539,770 |

### *Public Building Commission Bonds Payable – 2021*

The Public Building Commission bonds payable - 2021 consist of Barber County, Kansas Public Building Commission Refunding Revenue Bonds Series 2021 in the original amount of $2,325,000 dated June 10, 2021, which bear interest at 3.0%. The bonds are payable in annual installments beginning September 1, 2022 through September 1, 2026. Semiannual interest only payments are due beginning September 1, 2021 through September 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with Barber County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The Hospital's portion of the bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements as of December 31, 2023, are as follows:

| Year Ending December 31, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2024 | $ 25,402 | $ 23,250 | $ 2,152 |
| 2025 | 25,456 | 24,000 | 1,456 |
| 2026 | 25,236 | 24,500 | 736 |
| | $ 76,094 | $ 71,750 | $ 4,344 |

### *USDA Hospital Refunding Revenue Bond Series 2014*

The USDA Hospital Refunding Revenue Bond Series 2014 bond payable was issued September 15, 2014, in the amount of $4,500,000 and bears interest at 3.375%. Principal and interest payments began September 15, 2015, and extend through September 15, 2039.

The Hospital's debt service requirements for the USDA bond as of December 31, 2023, are as follows:

| Year Ending December 31, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2024 | $ 269,342 | $ 158,364 | $ 110,978 |
| 2025 | 269,342 | 163,709 | 105,633 |
| 2026 | 269,342 | 169,234 | 100,108 |
| 2027 | 269,342 | 174,945 | 94,397 |
| 2028 | 269,342 | 180,850 | 88,492 |
| 2029-2033 | 1,346,710 | 1,000,029 | 346,681 |
| 2034-2038 | 1,346,710 | 1,180,566 | 166,144 |
| 2039 | 269,343 | 260,549 | 8,794 |
| | $ 4,309,473 | $ 3,288,246 | $ 1,021,227 |

### *Subscription Liabilities*

The Hospital has one subscription-based information technology arrangement (SBITAs), the term of which expires in 2025. The subscription requires monthly payments of approximately $33,000.

The following is a schedule by year of payments under the SBITAs as of December 31, 2023:

| | Total to be Paid | Principal | Interest |
|---|---|---|---|
| Year Ending December 31, | | | |
| 2024 | $ 396,000 | $ 378,591 | $ 17,409 |
| 2025 | 264,000 | 260,893 | 3,107 |
| | $ 660,000 | $ 639,484 | $ 20,516 |

### *Financed Purchase Obligations*

Financed purchase obligations are in the form of notes payable to vendors at interest rates from 3.75% to 6.00%. Principal and interest is payable monthly. The notes are secured by certain capital assets. The Hospital paid the remaining balance in full on these obligations during 2022.

## 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 licensed as a critical access hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor.

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

Approximately 82% and 84% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ending December 31, 2023 and 2022, 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.

## Note 8. Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $72,000 and $12,100 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

## Note 9. 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 $830,928 and $766,495 for the years ending December 31, 2023 and 2022, 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 $789,420 and $607,870 for the years ending December 31, 2023 and 2022, 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 10. Pension Plans

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. 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 $171,624 and $276,074 during 2023 and $187,785 and $298,355 during 2022, respectively. Benefits start vesting immediately with 100% vesting after six 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. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled $90,064 and $91,728 during 2023 and 2022, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

## Note 11. Management Agreement

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. The terms of the agreements vary from one to seven years and can be cancelled 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, 2023 and 2022, were $816,089 and $883,983, respectively. Amounts due to GPHA at December 31, 2023 and 2022, were $52,969 and $25,533, respectively.

## Note 12. COVID-19 Pandemic & *CARES Act* Funding

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

The 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 year ended December 31, 2022, the Hospital received $1,044,325 of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2022, the Hospital recognized $1,119,638 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 Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the lasting effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief 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. The Provider Relief Fund payments are subject to government oversight, including potential audits.

### *Other COVID-19 Funding*

During the year ended December 31, 2022, 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 and recognized $257,367 during 2022 related to this grant. The revenue is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received $99,493 in a distribution from the Frontline Hospital Employee Retention Plan through the Strengthening People and Revitalizing Kansas (SPARK) program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The Hospital recognized $49,793 during 2022 related to this grant. The revenue is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

## Note 13. Adoption of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*

Effective January 1, 2023, the Hospital adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for information technology subscriptions by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain subscription assets and liabilities for subscriptions that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. As a result, the Hospital was required to retroactively restate December 31, 2022, amounts as follows:

| | As Restated | Previously Reported | Effect of Adoption |
|---|---|---|---|
| **Balance Sheet** | | | |
| Subscription asset, net | $ 975,383 | $ - | $ 975,383 |
| Total assets | 15,389,320 | 14,413,937 | 975,383 |
| Current portion of subscription liability | 363,827 | - | 363,827 |
| Total current liabilities | 1,532,260 | 1,168,433 | 363,827 |
| Subscription liability | 639,484 | - | 639,484 |
| Total liabilities | 5,531,740 | 4,528,429 | 1,003,311 |
| Net position - net investment in capital assets | 2,905,366 | 2,933,294 | (27,928) |
| Total net position | 9,857,580 | 9,885,508 | (27,928) |
| Total liabilities and net position | 15,389,320 | 14,413,937 | 975,383 |
| **Statements of Revenues, Expenses and Changes in Net Position** | | | |
| Purchased services and professional fees | $ 1,321,183 | $ 1,717,183 | $ (396,000) |
| Amortization | 377,567 | - | 377,567 |
| Total operating expenses | 12,971,381 | 12,989,814 | (18,433) |
| Operating loss | (1,360,819) | (1,379,252) | 18,433 |
| Interest expense | (170,108) | (123,747) | (46,361) |
| Total nonoperating revenues | 2,115,188 | 2,161,549 | (46,361) |
| Increase (Decrease) in net position | 754,369 | 782,297 | (27,928) |
| Net position, end of year | 9,857,580 | 9,885,508 | (27,928) |
| **Statements of Cash Flows** | | | |
| Payments to suppliers | $ (5,310,511) | $ (5,706,511) | $ 396,000 |
| Net cash provided by (used in) operating activities | 10,051 | (385,949) | 396,000 |
| Principal paid on subscription liability | (349,639) | - | (349,639) |
| Interest paid on subscription liability | (46,361) | - | (46,361) |
| Net cash used in capital and related financing activities | (1,194,942) | (798,942) | (396,000) |
| Operating loss | (1,360,819) | (1,379,252) | 18,433 |
| Amortization | 377,567 | - | 377,567 |
| Net cash provided by (used in) operating activities | 10,051 | (385,949) | 396,000 |