Kearny County Hospital
A Component Unit of Kearny County, Kansas

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020

Kearny County Hospital
A Component Unit of Kearny County, Kansas
June 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Kearny County Hospital
Lakin, Kansas

We have audited the accompanying financial statements of Kearny County Hospital (the Hospital), a component unit of Kearny County, Kansas, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Kearny County Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kearny County Hospital as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary schedules, the Operating Income (Loss) by Department – Direct and the Operating Income (Loss) by Department – Allocated, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Operating Income (Loss) by Department – Direct and the Operating Income (Loss) by Department – Allocated are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
December 3, 2021

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Balance Sheets
June 30, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	$ 8,006,142	$ 10,448,157
Patient accounts receivable, net of allowance;		
2021 - $724,717; 2020 - $1,084,707	3,438,560	2,254,839
Estimated amounts due from third-party payers	321,466	120,485
Other receivables	413,789	317,209
Employee receivables	38,013	72,147
Supplies	509,239	462,831
Prepaid expenses and other	372,565	258,298
Total current assets	13,099,774	13,933,966
Noncurrent Cash and Investments		
Designated by board of trustees	1,327,443	1,326,499
Capital Assets, Net	6,191,314	6,313,608
Other Assets		
Employee receivables	42,565	23,848
Total assets	$ 20,661,096	$ 21,597,921

See Notes to Financial Statements

Liabilities and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	$ 162,322	$ 1,280,406
Accounts payable	619,202	337,141
Accrued payroll	584,707	465,515
Accrued vacation	249,911	343,535
Other accrued expenses	674,476	367,783
Estimated amounts due to third-party payers	-	66,153
Advance from Medicare	1,387,070	2,869,803
Unearned revenue	78,712	4,395,312
Total current liabilities	3,756,400	10,125,648
Advance from Medicare	1,255,546	-
Long-Term Debt	62,610	1,890,629
Total liabilities	5,074,556	12,016,277
Net Position		
Net investment in capital assets	5,966,382	5,985,445
Unrestricted	9,620,158	3,596,199
Total net position	15,586,540	9,581,644
Total liabilities and net position	$ 20,661,096	$ 21,597,921

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - $748,056; 2020 - $1,112,321	$ 24,881,729	$ 21,475,351
Other	3,708,463	3,542,563
Total operating revenues	28,590,192	25,017,914
Operating Expenses		
Salaries and wages	15,725,421	13,581,821
Employee benefits	3,781,689	3,053,580
Purchased services and professional fees	3,231,822	2,697,851
Other supplies and expenses	6,702,557	5,915,648
Depreciation	1,229,967	1,314,757
Total operating expenses	30,671,456	26,563,657
Operating Loss	(2,081,264)	(1,545,743)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Kearny County	145,370	491,251
Interest income	22,581	23,797
Interest expense	(10,124)	(29,261)
Gain (loss) on disposal of capital assets	(3,460)	525
Noncapital grants and gifts	577,404	581,709
Provider Relief Funds (*CARES Act*)	4,511,517	74,212
Paycheck Protection Program (PPP) loan forgiveness	2,842,872	-
Total nonoperating revenues	8,086,160	1,142,233
Income (Loss) Before Capital Grants and Gifts	6,004,896	(403,510)
Capital Grants and Gifts	-	974,501
Increase in Net Position	6,004,896	570,991
Net Position, Beginning of Year	9,581,644	9,010,653
Net Position, End of Year	$ 15,586,540	$ 9,581,644

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 23,203,687	$ 24,976,206
Payments to suppliers and contractors	(9,917,352)	(8,747,506)
Payments to employees	(19,099,432)	(16,443,616)
Other receipts (payments), net	(704,717)	8,059,404
Net cash provided by (used in) operating activities	(6,517,814)	7,844,488
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Kearny County	145,370	491,251
Noncapital grants and gifts	577,404	581,709
Provider Relief Fund (*CARES Act*)	4,511,517	74,212
Proceeds from issuance of notes payable to bank	-	6,668,174
Principal paid on notes payable to bank	-	(7,120,356)
Interest paid on notes payable to bank	-	(9,274)
Proceeds from issuance of long-term debt	-	2,842,872
Net cash provided by noncapital financing activities	5,234,291	3,528,588
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	-	237,398
Purchases of capital assets	(908,596)	(383,603)
Proceeds from disposal of capital assets	3,723	13,000
Principal paid on long-term debt	(205,132)	(269,529)
Interest paid on long-term debt	(10,124)	(19,987)
Net cash used in capital and related financing activities	(1,120,129)	(422,721)
Cash Flows From Investing Activities		
Interest income received	22,581	23,797
Change in certificates of deposit	(319)	(11,212)
Advances to employees	(60,000)	(67,199)
Net cash used in investing activities	(37,738)	(54,614)
Increase (Decrease) in Cash and Cash Equivalents	(2,441,390)	10,895,741
Cash and Cash Equivalents, Beginning of Year	11,216,038	320,297
Cash and Cash Equivalents, End of Year	$ 8,774,648	$ 11,216,038

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

	2021	2020
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 8,006,142	$ 10,448,157
Designated by board of trustees	768,506	767,881
	$ 8,774,648	$ 11,216,038
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (2,081,264)	$ (1,545,743)
Depreciation	1,229,967	1,314,757
Provision for uncollectible accounts	748,056	1,112,321
Forgiveness of employee receivables	75,417	77,832
Changes in operating assets and liabilities		
Patient accounts receivable	(1,931,777)	(1,063,937)
Estimated amounts due from and to third-party payers	(267,134)	582,668
Advance from Medicare	(227,187)	2,869,803
Other receivables	(96,580)	285,870
Supplies	(46,408)	873
Prepaid expenses and other	(114,267)	15,696
Accounts payable and accrued expenses	509,963	(36,623)
Unearned revenue	(4,316,600)	4,230,971
Net cash provided by (used in) operating activities	$ (6,517,814)	$ 7,844,488
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	$ 101,901	$ -
Capital assets acquisitions included in accounts payable	$ 104,359	$ -
Capital asset additions paid for by Kearny County, Kansas	$ -	$ 737,103
PPP loan forgiveness	$ 2,842,872	$ -

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Notes to Financial Statements
June 30, 2021 and 2020

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

Nature of Operations and Reporting Entity

Kearny County Hospital (Hospital) is an acute care hospital located in Lakin, Kansas. The Hospital is a component unit of Kearny County (County) and governed by a Board of Trustees. The Board of County Commissioners appoints the members of the Board of Trustees. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, long-term care and rural health clinic services to patients in the Kearny County area. The Hospital is licensed as a critical access hospital (CAH).

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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 at June 30, 2021. At June 30, 2020, cash equivalents consisted of certificates of deposit.

Patient Accounts Receivable

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

Supplies

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

Noncurrent Investments

Noncurrent investments include assets consisting of certificates of deposit, which are carried at amortized cost. The Board of Trustees has designated these certificates of deposit for future capital acquisitions, which may at its discretion later use these designated certificates of deposit for other purposes.

Capital Assets

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

Land improvements	10 – 20 years
Buildings	5 – 40 years
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 June 30, 2021 and 2020.

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 June 8, 2021, that the PPP loan was forgiven in its entirety and recognized the gain on extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off that may be realized as paid time off or, in limited circumstances (*i.e.*, resignation), as a cash payment, up to the allowable maximum. Expense and the related liability are recognized as paid time off benefits when 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; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care 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 – Kearny County

The Hospital received approximately 0% and 2% in 2021 and 2020, respectively, of its financial support from proceeds of noncapital appropriations for property taxes.

Property taxes are levied by Kearny County in November of one year and are received beginning in January of the following year. Revenue from noncapital appropriations – Kearny County is recognized in full in the year in which use is first permitted.

Provider Relief Funds (CARES Act)

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

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.

Note 2: Deposits

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 June 30, 2021 and 2020, $9,378,293 and $11,568,184 of the Hospital's bank balances of $9,628,293 and $11,818,184, respectively, were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution	$ 9,378,293	$ 11,568,184

Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits	$ 8,774,648	$ 8,345,626
Certificates of deposit	558,937	3,429,030
	$ 9,333,585	$ 11,774,656
Included in the following balance sheet captions		
Cash and cash equivalents	$ 8,006,142	$ 10,448,157
Designated by board of trustees	1,327,443	1,326,499
	$ 9,333,585	$ 11,774,656

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 June 30 consisted of:

	2021	2020
Medicare	$ 800,526	$ 353,438
Medicaid	626,131	435,680
Other third-party payers	1,360,195	919,442
Patients	1,376,425	1,630,986
	4,163,277	3,339,546
Less allowance for uncollectible accounts	724,717	1,084,707
	$ 3,438,560	$ 2,254,839

Note 4: Capital Assets

Capital assets activity for the years ended June 30 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 97,298	$ -	$ -	$ -	$ 97,298
Land improvements	634,019	-	-	-	634,019
Buildings	18,357,649	230,808	(11,187)	-	18,577,270
Equipment	6,750,971	826,046	(28,656)	-	7,548,361
Construction in progress	-	58,002	-	-	58,002
	25,839,937	1,114,856	(39,843)	-	26,914,950
Less accumulated depreciation					
Land improvements	576,647	28,657	-	-	605,304
Buildings	13,728,693	713,886	(11,187)	-	14,431,392
Equipment	5,220,989	487,424	(21,473)	-	5,686,940
	19,526,329	1,229,967	(32,660)	-	20,723,636
Capital assets, net	$ 6,313,608	$ (115,111)	$ (7,183)	$ -	$ 6,191,314

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 97,298	$ -	$ -	$ -	$ 97,298
Land improvements	634,019	-	-	-	634,019
Buildings	18,300,696	654,003	(680,149)	83,099	18,357,649
Equipment	6,903,942	466,703	(619,674)	-	6,750,971
Construction in progress	83,099	-	-	(83,099)	-
	26,019,054	1,120,706	(1,299,823)	-	25,839,937
Less accumulated depreciation					
Land improvements	547,990	28,657	-	-	576,647
Buildings	13,704,704	693,082	(669,093)	-	13,728,693
Equipment	5,246,226	593,018	(618,255)	-	5,220,989
	19,498,920	1,314,757	(1,287,348)	-	19,526,329
Capital assets, net	$ 6,520,134	$ (194,051)	$ (12,475)	$ -	$ 6,313,608

Note 5: Employee Receivables

The Hospital has entered into loan agreements with certain employees in amounts ranging from $500 to $60,000. The loans are to be forgiven ratably over certain time periods following the employees' commencement of employment at the Hospital, by forgiving each installment as it becomes due. Notwithstanding the foregoing, the balances due and owing under the notes shall become immediately due and payable if the employees terminate employment at the Hospital. As of June 30, 2021 and 2020, the balances of the loan receivables were $80,578 and $95,995, respectively. The Hospital forgave $75,417 and $77,832 of the loan receivables for the years ended June 30, 2021 and 2020, respectively.

Note 6: Notes Payable to Bank

The Hospital had a revolving line of credit agreement with a local bank. The maximum principal that could have been borrowed was $1,000,000, and the line of credit carried an interest rate of 4.8%. Interest was payable monthly. The line of credit was collateralized by patient accounts receivable. The line of credit expired March 2, 2021, and was not renewed. The following is a summary of this revolving line of credit for the years ended June 30:

	2021	2020
Beginning balance	$ -	$ 452,182
Additions	-	6,668,174
Deductions	-	(7,120,356)
Ending balance	$ -	$ -

Note 7: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	$ 328,163	$ 101,901	$ 205,132	$ 224,932	$ 162,322
PPP loan payable	2,842,872	-	2,842,872	-	-
	$ 3,171,035	$ 101,901	$ 3,048,004	$ 224,932	$ 162,322

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	$ 597,692	$ -	$ 269,529	$ 328,163	$ 188,426
PPP loan payable	-	2,842,872	-	2,842,872	1,091,980
	$ 597,692	$ 2,842,872	$ 269,529	$ 3,171,035	$ 1,280,406

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 June 30, 2021 and 2020:

	2021	2020
Equipment	$ 1,309,338	$ 1,207,437
Less accumulated depreciation	1,059,852	930,211
	$ 249,486	$ 277,226

Paycheck Protection Program (PPP) Loan Payable

The *CARES Act* and other subsequent legislation also 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 $2,842,872 in 2020. The loan has an interest rate of 1%, with monthly payments of $160,018 due monthly starting six months after the receipt of the loan. The Hospital received legal notice on June 8, 2021, that the PPP loan was forgiven in its entirety.

Debt Service Requirements

Debt service requirements on long-term debt as of June 30, 2021, are as follows:

Year Ending June 30	Total to Be Paid	Capital Lease Obligations Principal	Capital Lease Obligations Interest
2022	$ 166,861	$ 162,322	$ 4,539
2023	45,810	44,487	1,323
2024	18,332	18,123	209
	$ 231,003	$ 224,932	$ 6,071

Note 8: Professional Liability Coverage and Claims

The Hospital purchases professional liability insurance 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 $300,000 of coverage for each medical incident and $900,000 of aggregate coverage for each policy year.

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

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $35,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported, and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	2021	2020
Balance, beginning of year	$ 150,452	$ 114,595
Current year claims incurred and changes in estimates for claims incurred in prior years	2,016,502	1,486,342
Claims and expenses paid	(1,745,967)	(1,450,485)
	$ 420,987	$ 150,452

Note 10: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH, 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. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. 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. Due to certain financial and clinical criteria, the Hospital also receives Medicaid Disproportionate Share (DSH) funding. DSH payments received were $337,884 and $420,249 in 2021 and 2020, respectively.

Approximately 49% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for years ended June 30, 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, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 11: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $91,000 and $149,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 12: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufactures on outpatient pharmaceutical purchases. The Hospital recorded revenues of $2,815,206 and $2,836,192 for the years ended June 30, 2021 and 2020, respectively, which is included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of $1,219,936 and $1,259,958 for the years ended June 30, 2021 and 2020, respectively, which is included in supplies and other expenses in the accompanying statements of revenues, 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 this program 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 13: Pension Plans

Defined Contribution

The Hospital maintains a contributory defined contribution pension plan covering substantially all employees in lieu of social security. Employees are required to contribute the same percentage required under the Social Security laws (OASDI). The Hospital is required to make a matching contribution in the same amount. An additional 3% contribution is made by the Hospital on behalf of all employees continuously employed for three years or more. Voluntary employee contributions may be made up to a specified percent of eligible compensation as specified in the plan document. Employee and employer contributions vest immediately. Benefits are funded by an annuity contract with an insurance company. Contributions made by plan members was $963,086 and $791,912 for the years ended June 30, 2021 and 2020, respectively. Contributions made by the Hospital was $1,298,599 and $1,075,749 for the years ended June 30, 2021 and 2020, respectively.

Deferred Compensation

The Hospital provides a deferred compensation plan (457 Plan) to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457 Plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. Contributions from employees to the 457 Plan were $161,161 and $130,016 for the years ended June 30, 2021 and 2020, respectively. The Hospital does not contribute to the 457 Plan.

Note 14: COVID-19 Pandemic & *CARES Act* Funding

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

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

Beginning in mid-March 2020, the Hospital deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the fiscal year 2021.

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

In addition, the Hospital received $268,000 and $4,317,729 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief and Economic Security Act* (*CARES Act*) during the years ended June 30, 2021 and 2020, respectively; a PPP loan of $2,842,872 during the year ended June 30, 2020; and other COVID-19 funding of $185,165 and $103,000 during the years ended June 30, 2021 and 2020, respectively.

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

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

Provider Relief Fund

The Hospital received $268,000 and $4,317,729 from the *CARES Act* Provider Relief Fund for the years ended June 30, 2021 and 2020, respectively. 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 the Department of Health and Human Services (HHS).

The Hospital accounts for such payments as voluntary nonexchange transactions. As such, payments are recognized as revenue once the applicable terms and conditions required 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 June 30, 2021 and 2020, the Hospital recognized $4,511,517 and $74,212, respectively, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenues – *CARES Act* funding in the statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of $0 and $4,243,517 is recorded as part of unearned revenue in the accompanying balance sheets for the years ended June 30, 2021 and 2020, respectively.

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

Paycheck Protection Program (PPP) Loan

During fiscal year 2020, the Hospital received a PPP loan of $2,842,872 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 June 8, 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.

Medicare Accelerated and Advanced Payment Program

During fiscal year 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 fiscal year 2020, the Hospital received $2,869,803 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests is recorded under the caption Advance from Medicare in the accompanying balance sheets and is classified as a current and a long-term liability as of June 30, 2021, based upon payback provisions in effect at June 30, 2021 and a current liability as of June 30, 2020, based upon payback provisions in effect at June 30, 2020.

Other COVID-19 Funding

During 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital received and recognized $72,011 related to the SHIP grant for the year ended June 30, 2021. 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 2021, the Hospital received funding through the Strengthening People and Revitalizing Kansas (SPARK) program. The Hospital received and recognized $113,154, related to this funding for the year ended June 30, 2021, and these payments are recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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. On April 24, 2020, the Hospital received and recognized $100,000 related to this special emergency grant for the year ended June 30, 2020. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During 2020, HHS provided $100 million in aid to hospitals and health care systems in preparing for a surge in COVID-19 patients. Of that funding, $50 million was allotted to State Hospitals Associations for distribution through competitive grant applications. KHA received $784,542 in funds, which were distributed on May 1. In addition, KHA was awarded an additional $1.95 million to be distributed in the future. The Hospital received and recognized $3,000 related to this Assistant Secretary for Preparedness and Response (ASPR) grant for the year ended June 30, 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.

Note 15: Contingencies

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in *Notes 1* and *8*.

General Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 16: 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.

On July 20, 2021, the Hospital was awarded a Rural Health Clinic Vaccine Confidence Program Federal grant in the amount of $99,058. The grant period will cover July 1, 2021 through June 30, 2022.

On November 23, 2021, the Hospital received $662,879 in a distribution from the American Rescue Plan rural funding program.

Note 17: 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 No. 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.

Supplementary Information

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Operating Income (Loss) by Department - Direct
Years Ended June 30, 2021 and 2020

	June 30, 2021		
	Operating Revenues	Operating Expenses	Operating Income (Loss)
Routine	$ 1,400,163	$ 2,682,313	$ (1,282,150)
Nursery	271,343	78,137	193,206
Labor and Delivery	894,621	249,444	645,177
Respiratory Therapy	323,587	127,407	196,181
Operating & Recovery	2,336,289	592,499	1,743,791
Anesthesiology	553,032	771,505	(218,473)
Emergency & Observation	971,424	597,841	373,583
Medical Supplies	334,449	543,254	(208,804)
Laboratory	3,812,754	2,023,841	1,788,913
EKG, Heart Monitor & Cardiac Rehab	169,061	87,489	81,572
Radiology & Mammography	435,250	539,642	(104,392)
Ultrasound	326,988	144,105	182,882
Drugs & IV Solutions	1,659,930	658,736	1,001,194
MRI	116,317	60,682	55,635
CT Scans	931,712	102,370	829,342
Nuclear Medicine	33,758	25,250	8,508
Speech Therapy	12,197	17,878	(5,681)
Physical Therapy	424,766	513,006	(88,239)
Physician & Pain Management	6,002,754	8,339,275	(2,336,521)
Home Health	-	-	-
Nursing Home & Assisted Living	3,871,332	5,329,821	(1,458,489)
340B Drug Program	2,815,206	1,219,936	1,595,270
Other Operating Revenue	893,257	-	893,257
Nursing Administration	-	440,476	(440,476)
Health Information	-	406,084	(406,084)
Admissions	-	111,444	(111,444)
Dietary	-	767,700	(767,700)
Maintenance	-	237,855	(237,855)
Housekeeping	-	296,390	(296,390)
Information Systems	-	678,128	(678,128)
Laundry	-	177,963	(177,963)
Translation	-	11,493	(11,493)
Accounting & Billing	-	908,052	(908,052)
Administration	-	1,931,441	(1,931,441)
	$ 28,590,192	$ 30,671,456	$ (2,081,264)

June 30, 2020		
Operating Revenues	Operating Expenses	Operating Income (Loss)
$ 1,442,366	$ 2,169,841	$ (727,476)
271,809	69,574	202,236
580,175	307,522	272,653
122,944	74,901	48,043
1,355,398	436,851	918,546
548,680	670,259	(121,579)
793,637	650,202	143,434
371,451	489,676	(118,225)
2,862,340	1,219,042	1,643,298
112,093	68,142	43,951
320,808	444,824	(124,016)
284,308	114,228	170,081
1,256,202	557,356	698,846
110,008	50,032	59,976
714,966	217,076	497,890
30,375	24,355	6,020
5,186	6,685	(1,499)
394,033	363,213	30,819
5,719,068	7,308,350	(1,589,282)
-	314	(314)
4,179,503	4,721,695	(542,192)
2,836,192	1,312,442	1,523,750
706,371	-	706,371
-	364,839	(364,839)
-	334,375	(334,375)
-	100,205	(100,205)
-	740,245	(740,245)
-	177,026	(177,026)
-	241,845	(241,845)
-	607,018	(607,018)
-	151,679	(151,679)
-	17,937	(17,937)
-	582,440	(582,440)
-	1,969,467	(1,969,467)
$ 25,017,914	$ 26,563,657	$ (1,545,743)

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Operating Income (Loss) by Department - Allocated
Years Ended June 30, 2021 and 2020

	June 30, 2021		
	Operating Revenues	Operating Expenses	Operating Income (Loss)
Routine	$ 1,400,163	$ 3,800,989	$ (2,400,826)
Nursery	271,343	180,575	90,768
Labor and Delivery	894,621	466,496	428,125
Respiratory Therapy	323,587	184,480	139,107
Operating & Recovery	2,336,289	979,682	1,356,607
Anesthesiology	553,032	828,219	(275,187)
Emergency & Observation	971,424	911,919	59,505
Medical Supplies	334,449	813,823	(479,374)
Laboratory	3,812,754	3,230,468	582,286
EKG, Heart Monitor & Cardiac Rehab	169,061	125,358	43,703
Radiology & Mammography	435,250	748,704	(313,454)
Ultrasound	326,988	199,933	127,055
Drugs & IV Solutions	1,659,930	1,004,433	655,497
MRI	116,317	70,474	45,843
CT Scans	931,712	142,029	789,683
Nuclear Medicine	33,758	35,032	(1,274)
Speech Therapy	12,197	20,785	(8,588)
Physical Therapy	424,766	700,375	(275,609)
Physician	6,002,754	8,224,883	(2,222,129)
Nursing Home & Assisted Living	3,871,332	6,541,916	(2,670,584)
340B Drug Program	2,815,206	1,219,936	1,595,270
Other Operating Revenue	893,257	240,947	652,310
	$ 28,590,192	$ 30,671,456	$ (2,081,264)

June 30, 2020		
Operating Revenues	Operating Expenses	Operating Income (Loss)
$ 1,442,366	$ 3,220,226	$ (1,777,860)
271,809	135,631	136,178
580,175	516,949	63,226
122,944	111,875	11,069
1,355,398	797,222	558,176
548,680	733,614	(184,934)
793,637	932,999	(139,362)
371,451	729,372	(357,921)
2,862,340	2,020,025	842,315
112,093	98,680	13,413
320,808	621,753	(300,945)
284,308	159,662	124,647
1,256,202	885,527	370,675
110,008	58,268	51,740
714,966	303,418	411,548
30,375	34,042	(3,667)
5,186	7,894	(2,708)
394,033	551,649	(157,616)
5,719,068	7,236,022	(1,516,954)
4,179,503	5,901,216	(1,721,713)
2,836,192	1,312,442	1,523,750
706,371	195,171	511,200
$ 25,017,914	$ 26,563,657	$ (1,545,743)