Meade Hospital District d/b/a Artesian Valley Health System

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021

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Forvis Mazars, LLP
1551 N. Waterfront Parkway, Suite 300
Wichita, KS 67206
P 316.265.2811 | F 316.265.9405
forvismazars.us

Independent Auditor's Report

Board of Directors
Meade Hospital District d/b/a Artesian Valley Health System
Meade, Kansas

Opinions

We have audited the accompanying financial statements of Meade Hospital District (Hospital District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Meade Hospital District's basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meade Hospital District as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the *Kansas Municipal Audit and Accounting Guide*. 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 the 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.

Prior Year Audited by Other Auditors

The 2021 financial statements were audited by other auditors, and their report thereon, dated October 12, 2022, expressed an unmodified opinion.

Emphasis of Matter

As discussed in *Note 12* to the financial statements, during the year ended December 31, 2022, Meade Hospital District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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.

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 the Hospital District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Forvis Mazars, LLP

Wichita, Kansas
November 27, 2024

Meade Hospital District
d/b/a Artesian Valley Health System
Balance Sheets
December 31, 2022 and 2021

	2022	2021 (As Restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 1,054,443	$ 3,470,646
Restricted cash - current	653,145	653,145
Patient accounts receivable, net of allowance; 2022 - $1,092,864, 2021 - $1,410,120	1,626,532	1,516,438
Property taxes receivable	2,023,379	2,023,397
Estimated amounts due from third-party payers	586,000	-
Supplies	399,455	434,842
Prepaid expenses and other	92,190	77,570
Total current assets	6,435,144	8,176,038
Capital Assets, Net	2,790,573	3,421,167
Lease Assets, Net	1,341,142	347,908
Total assets	10,566,859	11,945,113
Deferred Outflows of Resources		
Deferred refunding costs - net of accumulated amortization 2022 - $78,029, 2021 - $77,776	-	253
Total assets and deferred outflows of resources	$ 10,566,859	$ 11,945,366

See Notes to Financial Statements

	2022	2021 (As Restated)
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 32,465	$ 604,150
Current portion of lease liabilities	225,855	66,251
Paycheck Protection Program (PPP) loan payable	-	1,188,153
Accounts payable	286,597	853,978
Estimated amounts due to third-party payers	170,845	601,877
Accrued wages and vacation benefits	1,000,084	1,069,478
Other accrued liabilities	90,839	84,399
Accrued interest payable	855	5,869
Unearned revenue	-	1,352,290
Total current liabilities	1,807,540	5,826,445
Other Long-Term Obligations		
Long-term debt	223,955	253,659
Lease liabilities	1,150,753	299,693
Total other long-term obligations	1,374,708	553,352
Total liabilities	3,182,248	6,379,797
Deferred Inflows of Resources		
Deferred property taxes	2,023,379	2,023,397
Net Position		
Net investment in capital assets	2,497,832	2,539,453
Restricted - expendable for Specific Operating Activities	653,145	653,145
Unrestricted	2,210,255	349,574
Total net position	5,361,232	3,542,172
Total liabilities, deferred inflows of resources and net position	$ 10,566,859	$ 11,945,366

Meade Hospital District
d/b/a Artesian Valley Health System
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021 (As Restated)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 – $39,656, 2021 – $209,438	$ 13,423,149	$ 13,409,189
Other	150,761	25,348
Total operating revenues	13,573,910	13,434,537
Operating Expenses		
Salaries and wages	7,215,811	7,462,736
Employee benefits	1,724,810	2,032,375
Purchased services	3,229,539	2,175,266
Medical supplies and drugs	858,379	941,366
Supplies and other	3,175,245	3,465,021
Depreciation	454,839	461,823
Amortization	116,029	96,500
Total operating expenses	16,774,652	16,635,087
Operating Loss	(3,200,742)	(3,200,550)
Nonoperating Revenues (Expenses)		
Property taxes for operations	1,409,228	1,479,904
Property taxes for debt service	615,522	539,147
Investment income	17,324	23,553
Interest expense	(28,935)	(37,140)
Noncapital grants and gifts	306,175	13,352
Other	-	96,748
Provider Relief Funds *(CARES Act)*	1,352,290	1,154,097
Paycheck Protection Program (PPP) loan forgiveness	1,348,198	-
Total nonoperating revenues	5,019,802	3,269,661
Change in Net Position	1,819,060	69,111
Net Position, Beginning of Year	3,542,172	3,473,061
Net Position, End of Year	$ 5,361,232	$ 3,542,172

Meade Hospital District
d/b/a Artesian Valley Health System
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021 (As Restated)
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 12,296,023	$ 12,615,211
Payments to suppliers and contractors	(7,808,098)	(6,027,378)
Payments to employees	(9,010,015)	(9,397,802)
Other receipts, net	150,761	26,792
Net cash used in operating activities	(4,371,329)	(2,783,177)
Cash Flows from Noncapital Financing Activities		
Property taxes for operations	1,409,228	1,479,904
Noncapital grants and gifts	306,175	(68,840)
Payment on PPP loan	-	(160,493)
Other	-	96,748
Net cash provided by noncapital financing activities	1,715,403	1,347,319
Cash Flows from Capital and Related Financing Activities		
Property taxes for debt service	615,522	539,147
Purchases of capital assets	(11,833)	(1,045,147)
Purchases of lease assets	(750,362)	-
Issuance of long-term obligation	937,950	-
Principal paid on long-term debt	(441,344)	(580,016)
Interest paid on long-term debt	(9,938)	(29,604)
Principal paid on leases payable	(98,599)	(72,314)
Interest paid on leases payable	(18,997)	(14,463)
Net cash provided by (used in) capital and related financing activities	222,399	(1,202,397)
Cash Flows from Investing Activities		
Investment income	17,324	23,553
Net cash provided by investing activities	17,324	23,553
Decrease in Cash	(2,416,203)	(2,614,702)
Cash, Beginning of Year	4,123,791	6,738,493
Cash, End of Year	$ 1,707,588	$ 4,123,791

Meade Hospital District
d/b/a Artesian Valley Health System
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021 (As Restated)
Reconciliation of Cash to the Balance Sheets		
Cash	$ 1,054,443	$ 3,470,646
Restricted cash - current	653,145	653,145
	$ 1,707,588	$ 4,123,791
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (3,200,742)	$ (3,200,550)
Depreciation	454,839	461,823
Amortization	116,029	96,500
Provision for uncollectible accounts	39,656	209,438
Changes in operating assets and liabilities		
Patient accounts receivable	(149,750)	(245,805)
Estimated amounts due from third-party payers	(1,017,032)	(757,611)
Supplies	35,387	(77,749)
Prepaid expenses and other	(14,367)	60,277
Accounts payable and accrued expenses	(635,349)	670,500
Net cash used in operating activities	$ (4,371,329)	$ (2,783,177)
Noncash Investing, Capital and Financing Activities:		
Lease obligations incurred for capital assets	$ 1,109,263	$ -
PPP loan forgiveness	$ 1,348,198	$ -

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

Nature of Operations and Reporting Entity

Meade Hospital District (Hospital District) is a municipality of the State of Kansas and is governed by a Board of Directors who is elected by the residents of the District. The Hospital District provides general, acute, outpatient and hospital care and long-term care services. The Hospital District is a licensed critical access hospital (CAH) located in Meade, Kansas.

Basis of Accounting and Presentation

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

Budgetary Principles

The Hospital District is required by state statutes to adopt annual budgets on or before August 25 for the ensuing calendar year. The Hospital District's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no encumbrances at December 31, 2022 and 2021. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital District's Board of Directors.

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.

Property Tax Revenues

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the county. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied

during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of amounts received and anticipated delinquencies. Taxes receivable are also deferred and amortized ratably to income throughout the fiscal year.

The Hospital District received approximately 11% and 12% for 2022 and 2021, respectively, of its financial support from property taxes. One hundred percent of these funds were used to support operations and debt service in both years.

Risk Management

The Hospital District 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest, dividends, and gains and losses, both realized and unrealized, on investments.

Patient Accounts Receivable

The Hospital District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District 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 net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Capital Assets

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

Land improvements	12 – 15 years
Building	10 – 50 years
Fixed equipment	10 – 20 years
Major moveable equipment	5 – 20 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Asset Impairment

The Hospital District evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease 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 or accumulated amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Compensated Absences

Hospital District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources

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

Net Position

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

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

- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital District, 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 net position.

Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District 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 District 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 District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The amount of charges foregone for services and supplies furnished under the Hospital District's charity care policy was $37,670 and $23,023 in 2022 and 2021, respectively. The Hospital District's direct and indirect costs for services and supplies furnished under the Hospital District's charity care policy totaled approximately $42,000 and $23,000 in 2022 and 2021, respectively. Costs were calculated using the overall cost-to-charge ratio from the December 31, 2022 and 2021, filed Medicare cost reports.

Provider Relief Funds (CARES Act)

On March 27, 2020, the *CARES Act*, as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19 was signed into law. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the Department of Health and Human Services (HHS). The Hospital District 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 substantially met and are reported as Provider Relief Funds (*CARES Act*) in the accompanying statements of revenues, expenses, and changes in net position. The unrecognized amount of the Provider Relief Funds (*CARES Act*) is recorded as unearned revenue in the accompanying balance sheets.

Paycheck Protection Program (PPP) Loan

The Hospital District 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 District received legal notice in 2022, 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.

Income Taxes

As an essential government entity, the Hospital District is generally exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2. Net Patient Service Revenue

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

Medicare. The Hospital District 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. Rural Health Clinic services are reimbursed on a cost reimbursement methodology. The Hospital District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicare Administrative Contractor.

Medicaid. The Hospital District is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries, 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 56% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2022 and 2021, 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 District 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 District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3. Deposits and Investments

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 District'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, 2022 and 2021, respectively, none of the Hospital District's bank balances of $1,929,915 and $4,237,750 were exposed to custodial credit risk.

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	$ 1,707,588	$ 4,123,791
Included in the following balance sheet captions		
Cash	$ 1,054,443	$ 3,470,646
Restricted cash	653,145	653,145
	$ 1,707,588	$ 4,123,791

Note 4. Patient Accounts Receivable

The Hospital District 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:

	2022	2021
Medicare	$ 427,081	$ 712,494
Medicaid	335,351	156,598
Commercial	528,197	1,404,831
Patients	1,428,767	652,635
	2,719,396	2,926,558
Less allowance for uncollectible accounts	1,092,864	1,410,120
	$ 1,626,532	$ 1,516,438

Note 5. Capital and Lease Assets

Capital assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 86,142	$ -	$ -	$ -	$ 86,142
Land improvements	1,292,296	-	-	-	1,292,296
Building and fixed equipment	7,914,641	26,000	-	423,221	8,363,862
Major moveable equipment	7,827,855	8,013	-	-	7,835,868
Construction in process	632,989	-	(22,180)	(610,809)	-
	17,753,923	34,013	(22,180)	(187,588)	17,578,168
Less accumulated depreciation					
Land improvements	1,051,602	46,849	-	-	1,098,451
Building and fixed equipment	6,479,879	211,434	-	-	6,691,313
Major moveable equipment	6,801,275	196,556	-	-	6,997,831
	14,332,756	454,839	-	-	14,787,595
Capital assets, net	$ 3,421,167	$ (420,826)	$ (22,180)	$ (187,588)	$ 2,790,573

	2021 (As Restated)				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 86,142	$ -	$ -	$ -	$ 86,142
Land improvements	1,292,296	-	-	-	1,292,296
Building and fixed equipment	7,914,641	-	-	-	7,914,641
Major moveable equipment	7,179,945	647,910	-	-	7,827,855
Construction in process	235,752	397,237	-	-	632,989
	16,708,776	1,045,147	-	-	17,753,923
Less accumulated depreciation					
Land improvements	1,004,625	46,977	-	-	1,051,602
Building and fixed equipment	6,275,572	204,307	-	-	6,479,879
Major moveable equipment	6,593,991	207,284	-	-	6,801,275
	13,874,188	458,568	-	-	14,332,756
Capital assets, net	$ 2,834,588	$ 586,579	$ -	$ -	$ 3,421,167

Lease assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Fixed equipment	$ -	$ 750,362	$ -	$ 187,588	$ 937,950
Equipment	515,000	171,313	-	-	686,313
	515,000	921,675	-	187,588	1,624,263
Less accumulated amortization					
Equipment	167,092	116,029	-	-	283,121
	167,092	116,029	-	-	283,121
Lease Assets, Net	$ 347,908	$ 805,646	$ -	$ 187,588	$ 1,341,142

	2021 (As Restated)				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	$ 515,000	$ -	$ -	$ -	$ 515,000
	515,000	-	-	-	515,000
Less accumulated amortization					
Equipment	70,592	96,500	-	-	167,092
	70,592	96,500	-	-	167,092
Lease Assets, Net	$ 444,408	$ (96,500)	$ -	$ -	$ 347,908

Note 6. Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital District for the years ended December 31, 2022 and 2021:

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2014 bonds					
General Obligation	$ 570,000	$ -	$ 570,000	$ -	$ -
Premium on bond	173	-	173	-	-
Revenue	287,636	-	31,218	256,418	32,465
Lease obligations	365,944	1,109,263	98,597	1,376,610	225,855
SBA PPP Loan	1,188,153	-	1,188,153	-	-
	$ 2,411,906	$ 1,109,263	$ 1,888,141	$ 1,633,028	$ 258,320

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2014 bonds					
General Obligation	$ 1,120,000	$ -	$ 550,000	$ 570,000	$ 570,000
Premium on bond	2,401.00	-	2,228.00	173.00	173.00
Revenue	317,652.00	-	30,016.00	287,636.00	31,217.00
Lease obligations	438,258	-	72,314	365,944	69,011
SBA PPP Loan	1,348,646	-	160,493	1,188,153	1,188,153
	$ 3,226,957	$ -	$ 815,051	$ 2,411,906	$ 1,858,554

2014 Revenue Bonds Payable – General Obligation

Due February 1, 2022, principal payable semiannually beginning February 1, 2015, plus semiannual interest payments at interest rates at 2.00%; secured by assets of the Hospital District. The general obligation portion of the 2014 bonds was paid off in 2022.

2014 Revenue Bonds Payable – Revenue

SBA PPP Loan

The Hospital District entered into the Paycheck Protection Program (PPP) loan on April 8, 2020, in the amount of $1,348,646. The loan is a program under the Small Business Administration (SBA) and is fully guaranteed by the SBA. The loan was forgiven in its entirety on June 28, 2022.

Lease Obligations

The Hospital District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2022 and 2021, totaled $1,652,003 and $515,000, respectively, net of accumulated depreciation of $258,469 and $167,092, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.45% to 6.00% together with the present value of the future minimum lease payments as of December 31, 2022:

Year Ending December 31,		
2023	$	329,659
2024		326,355
2025		316,447
2026		306,673
2027		242,471
2028		52,628
Total minimum lease payments		1,574,233
Less amount representing interest		222,443
Present value of future minimum lease payments	$	1,351,790

Note 7. Pension Plans

The Hospital District provides a defined contribution plan for all eligible employees. Upon employment all employees are eligible to participate in the plan. The plan requires that employees contribute 5% and the employer contributes 9% of the employee's compensation. Benefits are 100% vested upon participation in the plan. Contributions made by the Hospital were $694,792 and $710,134 for 2022 and 2021, respectively.

Note 8. COVID-19 Pandemic and *CARES Act* Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly impacted 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 Hospital District's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital District has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business.

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

Because of these and other uncertainties, the Hospital District cannot estimate the length or severity of the impact of the pandemic on the Hospital District's business. Decreases in cash flows and results of operations may have an impact 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 Funds

The Hospital District received $0 and $1,274,445 from the *CARES Act* Provider Relief Fund for the years ended December 31, 2022 and 2021, respectively. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital District 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 is accounting 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 District's revenues and expenses through December 31, 2022 and 2021, the Hospital District recognized $1,352,290 and $1,154,097, respectively, related to the distributions from the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of $0 and $1,352,290, at December 31, 2022 and 2021, respectively, is recorded as a component of unearned revenue in the accompanying balance sheets.

The Hospital District will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital District's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital District is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

During 2020, the Hospital District received a PPP loan of $1,348,616 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 U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustments could be required to the recognition of revenue. On June 28, 2022, the Hospital District received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the fiscal year 2022 statements of revenues, expenses and changes in net position.

Other COVID-19 Funding

During the years ended December 31, 2022 and 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 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 District received and recognized $257,106 and $0 during 2022 and 2021, respectively, related to this grant. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 9. Compliance with Kansas Law

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital District's enterprise fund, which are on an annualized calendar year basis as follows:

Operating expenses	$ 16,774,652
Capital outlays	668,597
Depreciation	(454,839)
Annualized calendar expenses	16,988,410
Budgeted expenditures	18,587,197
Favorable variance	$ 1,598,787

Note 10. Medical Malpractice Coverage and Claims

The Hospital District purchases professional liability insurance under a claims-made policy with a fixed premium, which provides $500,000 and $200,000 of coverage for each medical incident and $1,500,000 and $600,000 of aggregate coverage for the policy years ending December 31, 2022 and 2021, respectively. The policies 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 and $800,000 of coverage for each medical incident and $1,500,000 and $2,400,000 of aggregate coverage for the policy years ending December 31, 2022 and 2021, respectively.

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

Note 11. Future Changes in Accounting Principles

Subscription-Based Information Technology Arrangements

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA) provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires not disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Note 12. Adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*

Effective January 1, 2022, the Hospital District adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. 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, 2021, amounts as follows:

	As Restated	Previously Reported	Effect of Adoption
Balance Sheet			
Capital assets, net	$ 3,421,167	$ 3,769,075	$ (347,908)
Lease assets, net	347,908	-	347,908
Current maturities of long-term debt	604,150	670,401	(66,251)
Current portion of lease liabilities	66,251	-	66,251
Long-term debt	253,659	553,352	(299,693)
Lease liabilities	299,693	-	299,693
Statements of Revenues, Expenses and Changes in Net Position			
Depreciation	461,823	558,323	(96,500)
Amortization	96,500	-	96,500
Statements of Cash Flows			
Principal paid on long-term debt	(580,016)	(652,330)	72,314
Interest paid on long-term debt	(29,604)	(44,067)	14,463
Principal paid on leases payable	(72,314)	-	(72,314)
Interest paid on leases payable	(14,463)	-	(14,463)
Depreciation	461,823	558,323	(96,500)
Amortization	96,500	-	96,500

Note 13. Subsequent Events

The Hospital District entered into an agreement with Axiom Healthcare to take over operations of the long-term care, effective January 1, 2024. As part of this agreement the Hospital district has committed to providing $200,000 of operational support and up to $50,000 for capital expenses. The Hospital district subsequently entered into an agreement to sale the long-term care building and operations to Axiom Healthcare effective December 31, 2024.