Lane County Hospital
A Component Unit of Lane County, Kansas



Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021

Lane County Hospital
A Component Unit of Lane County, Kansas
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Lane County Hospital
Dighton, Kansas

Opinion

We have audited the financial statements of Lane County Hospital, a component unit of Lane County, Kansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Lane County Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Lane County Hospital as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Lane County Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lane County Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lane County Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lane County Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

FORVIS, LLP

Wichita, Kansas
May 16, 2023

Lane County Hospital
A Component Unit of Lane County, Kansas
Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash	$ 1,072,591	$ 1,570,671
Short-term investments	686,738	-
Patient accounts receivable, net of allowance; 2022 – $224,655; 2021 – $195,531	689,383	1,561,373
Estimated amounts due from third-party payers	547,000	-
Supplies	151,677	90,770
Prepaid expenses and other	425,716	502,285
Total current assets	3,573,105	3,725,099
Noncurrent Cash		
Board designated for capital acquisitions	811,214	516,846
Restricted by donors for specific operating activities	37,825	14,482
	849,039	531,328
Capital Assets, Net	1,567,420	1,696,137
Other Assets	-	145,380
Total assets	$ 5,989,564	$ 6,097,944

See Notes to Financial Statements

Liabilities and Net Position

	2022	2021
Current Liabilities		
Current maturities of long-term debt	$ -	$ 12,356
Accounts payable	95,511	113,812
Accrued salaries and wages	195,544	187,302
Accrued vacation	205,957	172,547
Other accrued expenses	164,020	162,533
Unearned revenue	-	70,719
Estimated amounts due to third-party payers	-	585,000
Total current liabilities	661,032	1,304,269
Long-term Debt	-	12,695
Total liabilities	661,032	1,316,964
Net Position		
Net investment in capital assets	1,567,420	1,671,086
Restricted - expendable for Specific operating activities	37,825	14,482
Unrestricted	3,723,287	3,095,412
Total net position	5,328,532	4,780,980
Total liabilities and net position	$ 5,989,564	$ 6,097,944

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 – $145,500; 2021 – $138,223	$ 6,965,634	$ 6,132,176
Other	426,066	412,018
Total operating revenues	7,391,700	6,544,194
Operating Expenses		
Salaries and wages	3,463,298	3,519,845
Employee benefits	908,188	863,660
Supplies and other	3,360,745	3,050,309
Depreciation	288,022	274,536
Total operating expenses	8,020,253	7,708,350
Operating Loss	(628,553)	(1,164,156)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Lane County	605,165	590,531
Interest income	17,107	5,835
Interest expense	(913)	(1,855)
Gain on sale of land held for investment	195,224	-
Noncapital grants and gifts	288,803	224,726
Provider Relief Funds (*CARES Act*)	70,719	1,971,884
Paycheck Protection Program (PPP) loan forgiveness	-	542,100
Total nonoperating revenues	1,176,105	3,333,221
Increase in Net Position	547,552	2,169,065
Net Position, Beginning of Year	4,780,980	2,611,915
Net Position, End of Year	$ 5,328,532	$ 4,780,980

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Receipts from and on behalf of patients and third-party payers	$ 6,705,624	$ 4,475,912
Payments to suppliers	(4,271,572)	(4,012,356)
Payments to and on behalf of employees	(3,420,159)	(3,634,532)
Other receipts (payments), net	355,347	(1,059,972)
Net cash used in operating activities	(630,760)	(4,230,948)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Lane County	605,165	590,531
Noncapital grants and gifts	288,803	224,726
Provider Relief Funds (*CARES Act*)	70,719	1,971,884
Net cash provided by noncapital financing activities	964,687	2,787,141
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(25,051)	(70,483)
Interest payments on long-term debt	(913)	(1,855)
Purchases of capital assets	(159,305)	(381,211)
Net cash used in capital and related financing activities	(185,269)	(453,549)
Cash Flows From Investing Activities		
Purchase of investments	(686,738)	-
Interest income	17,107	5,835
Proceeds from sale of land held for investment	340,604	-
Net cash provided by (used in) investing activities	(329,027)	5,835
Decrease in Cash	(180,369)	(1,891,521)
Cash, Beginning of Year	2,101,999	3,993,520
Cash, End of Year	$ 1,921,630	$ 2,101,999
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 1,072,591	$ 1,570,671
Cash in noncurrent cash	849,039	531,328
Total cash	$ 1,921,630	$ 2,101,999

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (628,553)	$ (1,164,156)
Depreciation	288,022	274,536
Provision for uncollectible accounts	145,500	138,223
Changes in operating assets and liabilities		
Patient accounts receivable	726,490	(632,356)
Estimated amounts due from and to third-party payers	(1,132,000)	(1,162,131)
Supplies	(60,907)	(36,552)
Prepaid expenses and other	76,569	(39,007)
Accounts payable and accrued expenses	24,838	(137,515)
Unearned revenue	(70,719)	(1,471,990)
Net cash used in operating activities	$ (630,760)	$ (4,230,948)
Noncash Investing, Capital and Financing Activities		
PPP loan forgiveness	$ -	$ 542,100

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an appointed Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents for the years ended December 31, 2022 and 2021.

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.

Investments and Investment Income

Investments in U.S. Treasury obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost.

Investment income includes interest income and realized gains and losses on investments carried at other than fair value.

Capital Assets

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

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

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

Capital Asset Impairment

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

Compensated Absences

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation and employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security Act* (*CARES Act*) and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on February 24, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Net Position

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

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Noncapital Appropriations – Lane County

The Hospital received approximately 7% and 6% in 2022 and 2021, respectively, of its financial support from Lane County property tax levy, sales taxes and miscellaneous appropriations. 100% of tax support is used for operations.

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

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

Provider Relief Funds (CARES Act)

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

Income Taxes

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

Note 2: Deposits 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'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, $1,721,132 and $1,862,859 of the Hospital's bank balances of $1,971,132 and $2,112,859 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 1,721,132	$ 1,862,859

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2022 and 2021, the Hospital had $686,738 and $0, respectively, of investments in U.S. Treasury obligations with a maturity date of less than one year.

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	$ 1,921,430	$ 2,101,799
Petty cash	200	200
Investments in U.S. Treasury obligations	686,738	-
	$ 2,608,368	$ 2,101,999
Included in the following balance sheet captions		
Cash	$ 1,072,591	$ 1,570,671
Short-term investments	686,738	-
Board designated for capital acquisitions	811,214	516,846
Restricted by donors for specific operating activities	37,825	14,482
	$ 2,608,368	$ 2,101,999

Note 3: Patient Accounts Receivable

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

	2022	2021
Medicare	$ 353,831	$ 1,270,012
Medicaid	23,095	23,102
Blue Cross	68,715	103,427
Other third-party payers	65,559	58,285
Self-pay	402,838	302,078
	914,038	1,756,904
Less allowance for uncollectible accounts	(224,655)	(195,531)
	$ 689,383	$ 1,561,373

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 31,968	$ -	$ -	$ -	$ 31,968
Land improvements	64,632	-	-	-	64,632
Buildings	3,189,771	-	-	-	3,189,771
Fixed equipment	891,117	35,955	(26,619)	-	900,453
Major moveable equipment	1,469,630	123,350	(36,500)	-	1,556,480
	5,647,118	159,305	(63,119)	-	5,743,304
Less accumulated depreciation					
Land improvements	39,243	4,093	-	-	43,336
Buildings	2,437,940	62,523	-	-	2,500,463
Fixed equipment	683,373	45,100	(26,619)	-	701,854
Major moveable equipment	790,425	176,306	(36,500)	-	930,231
	3,950,981	288,022	(63,119)	-	4,175,884
Capital Assets, Net	$ 1,696,137	$ (128,717)	$ -	$ -	$ 1,567,420

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 29,188	$ 2,780	$ -	$ -	$ 31,968
Land improvements	54,592	12,000	(1,960)	-	64,632
Buildings	3,077,207	112,564	-	-	3,189,771
Fixed equipment	891,117	-	-	-	891,117
Major moveable equipment	1,383,544	97,730	(11,644)	-	1,469,630
	5,435,648	225,074	(13,604)	-	5,647,118
Less accumulated depreciation					
Land improvements	37,577	3,626	(1,960)	-	39,243
Buildings	2,378,384	59,556	-	-	2,437,940
Fixed equipment	640,040	43,333	-	-	683,373
Major moveable equipment	634,048	168,021	(11,644)	-	790,425
	3,690,049	274,536	(13,604)	-	3,950,981
Capital Assets, Net	$ 1,745,599	$ (49,462)	$ -	$ -	$ 1,696,137

Note 5: Long-term Obligations

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

	2022					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 25,051	$ -	$ 25,051	$ -	$ -	$ -
	$ 25,051	$ -	$ 25,051	$ -	$ -	$ -

	2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
PPP loan payable to bank	$ 542,100	$ -	$ 542,100	$ -	$ -	$ -
Capital lease obligations	95,534	-	70,483	25,051	12,356	12,695
	$ 637,634	$ -	$ 612,583	$ 25,051	$ 12,356	$ 12,695

Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of $542,100 in 2020. The loan has an interest rate of 1%, with monthly payments due starting ten months after the end of the covered period, which the Hospital elected to be 24 weeks after receipt of the loan. The Hospital received legal notice on February 24, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Capital assets include the following property under capital leases at December 31, 2022 and 2021:

	2022	2021
Equipment	$ -	$ 37,000
Accumulated depreciation	-	(21,583)
	$ -	$ 15,417

Note 6: Professional Liability Coverage and Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $1,000,000 and $200,000 of coverage for each medical incident and $3,000,000 and $600,000 of aggregate coverage for the policy years ending December 31, 2022 and 2021, respectively. The policies only cover 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 professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 7: Net Patient Service Revenue

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

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

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 91% and 85% of net patient service revenues are 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 has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Note 8: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $396,200 and $384,081 for the years ending December 31, 2022 and 2021, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of $379,035 and $404,979 for the years ending December 31, 2022 and 2021, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 9: Pension Plans

The Hospital maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who are at least 18 years of age and have completed one year of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The Hospital also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated $134,056 and $134,056 during 2022 and $142,300 and $142,300 during 2021, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled $52,393 and $64,874 during 2022 and 2021, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

Note 10: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2022 and 2021, were $536,270 and $493,689, respectively. There were no amounts due to GPHA at December 31, 2022 and 2021, respectively.

Note 11: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2022 and 2021.

Note 12: COVID-19 Pandemic & *CARES Act* Funding

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

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

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

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

Provider Relief Fund

During the years ended December 31, 2022 and 2021, the Hospital received $0 and $519,894, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2022 and 2021, the Hospital recognized $70,719 and $1,971,884, respectively, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of $0 and $70,719 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2022 and 2021, respectively.

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

Medicare Accelerated and Advanced Payment Program

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

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

During the year ended December 31, 2020, the Hospital received $1,545,131 from these accelerated Medicare payment requests. On March 24, 2021, the Hospital paid back the advances from Medicare in full.

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Hospital received a PPP loan of $542,100 established by the *CARES Act* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the SBA, or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on February 24, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

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 (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 $257,367 and $63,613 during 2022 and 2021, respectively, related to this grant. The Hospital recognized $257,367 and $63,613 of revenue during 2022 and 2021, respectively, related to this grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In October 2021, the Hospital received and recognized $99,493 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 13: Future Change in Accounting Principle

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 note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.