Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas

Independent Auditor's Report and Financial Statements

June 30, 2022 and 2021

Ellsworth County Medical Center
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June 30, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Ellsworth County Medical Center
Ellsworth, Kansas

Opinion

We have audited the accompanying financial statements of Ellsworth County Medical Center, a component unit of Kearny County, Kansas, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Ellsworth County Medical Center'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 Ellsworth County Medical Center as of June 30, 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) and the provisions of 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 Ellsworth County Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 17* to the financial statements, during the year ended June 30, 2022, Ellsworth County Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ellsworth County Medical Center'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 Ellsworth County Medical Center'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 Ellsworth County Medical Center'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, LLP

Wichita, Kansas
November 15, 2022

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Balance Sheets
June 30, 2022 and 2021

Assets

	2022	2021 (As Restated)
Current Assets		
Cash	$ 7,625,195	$ 7,051,687
Patient accounts receivable, net of allowance; 2022 - $1,933,602; 2021 - $1,993,271	1,468,889	2,576,424
Supplies	243,916	216,217
Prepaid expenses	239,967	143,930
Other receivables	336,490	221,220
Total current assets	9,914,457	10,209,478
Noncurrent Cash and Investments		
Designated by Board of Trustees	128,280	2,708,350
Restricted by donors and grantors	219,085	126,401
	347,365	2,834,751
Capital Assets, Net	4,079,151	4,133,389
Lease Assets, Net	927,883	1,034,371
Other Assets		
Advances to medical students	78,900	118,223
Total assets	$ 15,347,756	$ 18,330,212

See Notes to Financial Statements

Liabilities and Net Position

	2022	2021 (As Restated)
Current Liabilities		
Current maturities of long-term debt	$ 61,507	$ 59,367
Current portion of lease liabilities	96,726	96,963
Accounts payable	503,647	407,112
Accrued salaries payable	535,333	494,533
Accrued benefits payable	604,201	562,353
Other accrued liabilities	331,665	483,350
Estimated amounts due to third-party payers	614,598	776,839
Advance from Medicare	3,017,813	1,539,542
Unearned revenue	239,148	597,846
Total current liabilities	6,004,638	5,017,905
Other Liabilities		
Advance from Medicare	-	3,322,166
Long-term debt	39,852	101,631
Lease liabilities	866,088	956,737
Total other liabilities	905,940	4,380,534
Total liabilities	6,910,578	9,398,439
Net Position		
Net investment in capital assets	3,942,861	3,953,062
Restricted - expendable for Specific operating activities	219,085	126,401
Unrestricted	4,275,232	4,852,310
Total net position	8,437,178	8,931,773
Total liabilities and net position	$ 15,347,756	$ 18,330,212

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021 (As Restated)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 – $749,920; 2021 – $1,339,358	$ 17,038,727	$ 16,003,874
Other	2,283,074	2,086,520
Total operating revenues	19,321,801	18,090,394
Operating Expenses		
Salaries and wages	10,084,104	10,058,490
Employee benefits	1,528,377	2,195,217
Supplies and other	9,361,938	7,912,908
Depreciation	743,787	529,891
Amortization	113,065	120,075
Total operating expenses	21,831,271	20,816,581
Operating Loss	(2,509,470)	(2,726,187)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Ellsworth County	137,172	122,412
Investment income	51,061	65,252
Interest expense	(45,325)	(57,049)
Loss on disposal of capital assets	(25,737)	-
Noncapital grants and gifts	510,000	303,346
Provider Relief Funds (*CARES Act*)	1,387,704	4,147,737
Paycheck Protection Program (PPP) loan forgiveness	-	1,863,555
Total nonoperating revenues	2,014,875	6,445,253
Increase (Decrease) in Net Position	(494,595)	3,719,066
Net Position, Beginning of Year	8,931,773	5,212,707
Net Position, End of Year	$ 8,437,178	$ 8,931,773

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021 (As Restated)
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 16,140,126	$ 21,727,768
Payments to suppliers	(9,389,139)	(8,041,763)
Payments to employees	(11,681,518)	(12,152,118)
Other receipts (payments), net	1,848,429	(1,807,553)
Net cash used in operating activities	(3,082,102)	(273,666)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Ellsworth County	137,172	122,412
Noncapital grants and gifts	510,000	303,346
Provider Relief Funds (*CARES Act*)	1,387,704	4,147,737
Net cash provided by noncapital financing activities	2,034,876	4,573,495
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(715,286)	(2,378,712)
Principal paid on long-term debt	(59,639)	(187,811)
Interest paid on long-term debt	(5,414)	(13,285)
Principal paid on leases payable	(97,463)	(100,746)
Interest paid on leases payable	(39,911)	(43,764)
Net cash used in capital and related financing activities	(917,713)	(2,724,318)
Cash Flows From Investing Activities		
Investment income	51,061	65,252
Purchases of investments	-	(700,000)
Proceeds from disposition of investments	2,604,678	703,912
Net cash provided by investing activities	2,655,739	69,164
Increase in Cash	690,800	1,644,675
Cash, Beginning of Year	7,281,760	5,637,085
Cash, End of Year	$ 7,972,560	$ 7,281,760

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2022 and 2021

	2022	2021 (As Restated)
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 7,625,195	$ 7,051,687
Cash in noncurrent cash and investments	347,365	230,073
Total cash	$ 7,972,560	$ 7,281,760
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (2,509,470)	$ (2,726,187)
Provision for uncollectible accounts	749,920	1,339,358
Depreciation	743,787	529,891
Amortization	113,065	120,075
Change in operating assets and liabilities		
Patient accounts receivable	357,615	(1,836,866)
Estimated amounts due from and to third-party payers	(162,241)	1,359,694
Supplies	(27,699)	(16,206)
Prepaid expenses	(96,037)	(64,765)
Other receivables	(115,270)	(108,333)
Advances to medical students	39,323	2,231
Accounts payable	96,535	(47,884)
Accrued salaries payable	40,800	49,719
Accrued benefits payable	41,848	(18,077)
Other accrued liabilities	(151,685)	69,947
Advance from Medicare	(1,843,895)	4,861,708
Unearned revenue	(358,698)	(3,787,971)
Net cash used in operating activities	$ (3,082,102)	$ (273,666)
Noncash Investing, Capital and Financing Activities		
Lease obligations incurred for lease assets	$ 6,577	$ -
PPP loan forgiveness	$ -	$ 1,863,555

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2022 and 2021

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

Nature of Operations and Reporting Entity

Ellsworth County Medical Center (Medical Center) is a short-term acute care facility that is a component unit and an integral part of the overall reporting entity of Ellsworth County, Kansas. The Medical Center was organized and began operations on August 1, 1993, to provide inpatient and outpatient health care services for the benefit of the community. The Medical Center is operated by a Board of Trustees appointed by the County Commissioners of Ellsworth County, Kansas.

Basis of Accounting and Presentation

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center 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 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 Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center 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, determined using the first-in, first-out method, or net realizable value.

Noncurrent Cash and Investments and Investment Income

Noncurrent cash and investments include designated assets set aside by the Board of Trustees for future capital improvements, education and physician recruitment, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets that are restricted by donor and grantors for operating purposes. The funds are primarily invested in certificates of deposit and cash.

Investment income includes interest income.

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 Medical Center:

Land improvements	15 years
Building	40 years
Equipment	5 – 25 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 Medical Center evaluates capital and lease 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 or lease 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 June 30, 2022 and 2021.

Compensated Absences

The Medical Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay 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 Medical Center 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 employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims up to $45,000 per individual for 2022 and 2021. Claims in excess of $45,000 per individual for 2022 and 2021 or $1,000,000 aggregate Medical Center claims are covered through a reinsurance policy. 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.

Paycheck Protection Program (PPP) Loan

The Medical Center 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 Medical Center received legal notice on November 25, 2020, 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.

Net Position

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

- Net investment in capital assets consists of capital and lease assets net of accumulated depreciation and amortization reduced by the outstanding balances of borrowings used to finance the purchase, construction or lease 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 Medical Center.
- 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 Medical Center has agreements with third-party payers that provide for payments to the Medical Center 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 Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Noncapital Appropriations – Ellsworth County

The Medical Center receives approximately 1% of its financial support from noncapital appropriations from Ellsworth County property tax levy. One hundred percent of these appropriations were used to support operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Ellsworth County is recognized in full in the year in which use is first permitted.

Income Taxes

As an essential government function of Ellsworth County, Kansas, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Medical Center has obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Medical Center'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, 2022 and 2021, respectively, $8,046,557 and $10,192,612 of the Medical Center's bank balances of $8,322,672 and $10,883,361 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by the pledging financial institution in the Medical Center's name and an irrevocable letter of credit	$ 8,046,557	$ 10,192,612

Summary of Carrying Values

The carrying values of deposits (excluding petty cash of $1,600 and $600 for the years ending June 30, 2022 and 2021, respectively) shown above are included in the balance sheets as follows:

	2022	2021
Cash	$ 7,623,595	$ 7,051,087
Noncurrent cash and investments	347,365	2,834,751
	$ 7,970,960	$ 9,885,838

As of June 30, 2022, noncurrent cash and investments is comprised of cash. As of June 30, 2021, noncurrent cash and investments are comprised of cash and certificates of deposit with remaining maturities of less than one year.

Note 3: Patient Accounts Receivable

The Medical Center 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, 2022 and 2021, consisted of:

	2022	2021
Medicare	$ 977,067	$ 2,193,104
Medicaid	148,812	93,174
Blue Cross	577,407	535,668
Other third-party payers	649,675	582,902
Patients	1,049,530	1,164,847
	3,402,491	4,569,695
Less allowance for uncollectible accounts	(1,933,602)	(1,993,271)
	$ 1,468,889	$ 2,576,424

Note 4: Capital and Lease Assets

Capital assets activity for the years ended June 30 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 56,240	$ -	$ -	$ -	$ 56,240
Land improvements	484,772	-	-	-	484,772
Buildings	3,884,621	-	-	86,426	3,971,047
Fixed equipment	785,449	-	-	-	785,449
Moveable equipment	7,123,318	-	(217,253)	1,793,799	8,699,864
Projects in progress	1,689,796	715,286	-	(1,880,225)	524,857
	14,024,196	715,286	(217,253)	-	14,522,229
Less accumulated depreciation					
Land improvements	370,017	14,590	-	-	384,607
Buildings	3,345,608	101,253	-	-	3,446,861
Fixed equipment	639,833	24,487	-	-	664,320
Moveable equipment	5,535,349	603,457	(191,516)	-	5,947,290
	9,890,807	743,787	(191,516)	-	10,443,078
Capital Assets, Net	$ 4,133,389	$ (28,501)	$ (25,737)	$ -	$ 4,079,151

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 56,240	$ -	$ -	$ -	$ 56,240
Land improvements	370,763	114,009	-	-	484,772
Buildings	3,878,459	6,162	-	-	3,884,621
Fixed equipment	752,111	33,338	-	-	785,449
Moveable equipment	6,577,761	545,557	-	-	7,123,318
Projects in progress	10,150	1,679,646	-	-	1,689,796
	11,645,484	2,378,712	-	-	14,024,196
Less accumulated depreciation					
Land improvements	367,058	2,959	-	-	370,017
Buildings	3,250,751	94,857	-	-	3,345,608
Fixed equipment	615,329	24,504	-	-	639,833
Moveable equipment	5,127,778	407,571	-	-	5,535,349
	9,360,916	529,891	-	-	9,890,807
Capital Assets, Net	$ 2,284,568	$ 1,848,821	$ -	$ -	$ 4,133,389

Lease assets activity for the years ended June 30 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	$ 40,166	$ 6,577	$ (15,472)	$ -	$ 31,271
Building space	1,112,022	-	-	-	1,112,022
	1,152,188	6,577	(15,472)	-	1,143,293
Less accumulated amortization					
Equipment	14,876	10,124	(15,472)	-	9,528
Building space	102,941	102,941	-	-	205,882
	117,817	113,065	(15,472)	-	215,410
Lease Assets, Net	$ 1,034,371	$ (106,488)	$ -	$ -	$ 927,883

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	$ 42,424	$ -	$ (2,258)	$ -	$ 40,166
Building space	1,112,022	-	-	-	1,112,022
	1,154,446	-	(2,258)	-	1,152,188
Less accumulated depreciation					
Equipment	-	17,134	(2,258)	-	14,876
Building space	-	102,941	-	-	102,941
	-	120,075	(2,258)	-	117,817
Lease Assets, Net	$ 1,154,446	$ (120,075)	$ -	$ -	$ 1,034,371

Note 5: Long-Term Obligations

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

	2022					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Financed capital purchases	$ 160,998	$ -	$ (59,639)	$ 101,359	$ 61,507	$ 39,852
Lease liabilities	1,053,700	6,577	(97,463)	962,814	96,726	866,088
	$ 1,214,698	$ 6,577	$ (157,102)	$ 1,064,173	$ 158,233	$ 905,940

	2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
PPP loan payable to bank	$ 1,863,555	$ -	$ (1,863,555)	$ -	$ -	$ -
Financed capital purchases	348,809	-	(187,811)	160,998	59,367	101,631
Lease liabilities	1,154,446	-	(100,746)	1,053,700	96,963	956,737
	$ 3,366,810	$ -	$ (2,152,112)	$ 1,214,698	$ 156,330	$ 1,058,368

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 Medical Center received a PPP loan of $1,863,555 in 2020. The Medical Center received legal notice on November 25, 2020, that the PPP loan was forgiven in its entirety.

Financed Capital Purchases

Financed capital purchases are in the form of notes payable to bank. They have varying maturities through 2024. Principal and interest is payable monthly. Interest rate is 3.95%. The notes are secured by certain capital assets.

The debt service requirements on financed capital purchases as of June 30, 2022, are as follows:

Year Ending June 30	Total to Be Paid	Principal	Interest
2023	$ 64,538	$ 61,507	$ 3,031
2024	40,492	39,852	640
	$ 105,030	$ 101,359	$ 3,671

Lease Liabilities

The Medical Center leases certain building space and equipment, the terms of which expire in various years through 2032. Payments are based on the lease agreements in each specific lease.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30	Total to Be Paid	Principal	Interest
2023	$ 132,991	$ 96,726	$ 36,265
2024	132,990	100,644	32,346
2025	132,991	104,723	28,268
2026	130,494	106,443	24,051
2027	127,392	107,573	19,819
2028-2032	483,669	446,705	36,964
	$ 1,140,527	$ 962,814	$ 177,713

Note 6: Professional Liability Claims

The Medical Center 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 $800,000 of coverage for each medical incident and $2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $45,000 per covered employee for 2022 and 2021. Claims in excess of $45,000 per covered employee or $1,000,000 aggregate Medical Center claims are covered through a reinsurance policy for 2022 and 2021. 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 Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2022 and 2021 is summarized as follows:

	2022	2021
Balance, beginning of year	$ 326,501	$ 234,542
Current year claims incurred and changes in estimates for claims incurred in prior years	562,570	1,637,931
Claims and expenses paid	(777,113)	(1,545,972)
Balance, end of year	$ 111,958	$ 326,501

Note 8: Net Patient Service Revenue

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

Medicare. The Medical Center is recognized as a CAH. Under CAH rules, inpatient acute care, 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 a combination of fee schedules and cost reimbursement methodologies. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center 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.

Approximately 70% and 74% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 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 Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 9: Charity Care

Charges excluded from revenue under the Medical Center's charity care policy were $83,851 and $30,645 for June 30, 2022 and 2021, respectively. The Medical Center's direct and indirect costs for services and supplies furnished under the Medical Center's charity care policy were approximately $68,000 and $26,000 in 2022 and 2021, respectively. The cost of charity care is estimated by applying the ratio of cost-to-gross charges to the gross uncompensated charges from the June 30, 2022 and 2021, filed Medicare cost reports.

Note 10: 340B Drug Pricing Program

The Medical Center participates in the 340B Drug Pricing Program (340B Program) enabling the Medical Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Medical Center recorded revenues of $2,047,350 and $1,994,311 for the years ending June 30, 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 Medical Center recorded expenses of $2,054,577 and $1,369,880 for the years ending June 30, 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 11: Pension Plans

The Medical Center has a defined contribution plan (401(a) plan) in which all employees of the Medical Center become eligible for participation upon active employment. Employees were required by the plan to contribute 6.42% of their salary to the plan in 2022 and 2021. The employer is also required by the plan to contribute 6.42% of employee salary in 2022 and 2021. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions made by plan members were $618,765 and $612,274 for the years ended June 30, 2022 and 2021, respectively. Contributions made by the Medical Center were $618,765 and $612,274 for the years ended June 30, 2022 and 2021, respectively.

In addition, the Medical Center has a 403(b) defined contribution plan in which all employees of the Medical Center become eligible for participation upon active employment. Employees are allowed to contribute any amount to this plan. The employer will match the first $12 per pay period contributed by the employee. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions made by plan members were $261,385 and $197,687 for the years ended June 30, 2022 and 2021, respectively. Contributions made by the Medical Center were $31,170 and $30,495 for the years ended June 30, 2022 and 2021, respectively.

The Medical Center provides one additional defined contribution plan (457 plan). The plan year begins on January 1 and ends December 31. Contributions made by plan members were $104,878 and $48,455 for the years ended June 30, 2022 and 2021, respectively. The Medical Center does not make contributions to the 457 plan.

Note 12: Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including 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 Medical Center for the years ended June 30, 2022 and 2021, were $728,231 and $568,285, respectively. Amounts included in accounts payable and owed to GPHA were $68,196 and $73,936 at June 30, 2022 and 2021, respectively.

Note 13: 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.

The Medical Center's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Medical Center 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 Medical Center's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Medical Center's control and ability to forecast.

Because of these and other uncertainties, the Medical Center cannot estimate the length or severity of the effect of the pandemic on the Medical Center'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 Medical Center received $1,029,006 and $400,000 from the *CARES Act* Provider Relief Fund for the years ended June 30, 2022 and 2021, respectively. These distributions from the Provider Relief Fund are not subject to repayment, provided the Medical Center 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 Medical Center accounts for such payments as voluntary nonexchange transactions. As such, 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 Medical Center's operating revenues and expenses through June 30, 2022 and 2021, the Medical Center recognized $1,387,704 and $4,147,737, 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 $239,148 and $597,846 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended June 30, 2022 and 2021, respectively.

The Medical Center will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Medical Center's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Medical Center is unable to attest to or comply with current or future terms and conditions the Medical Center'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.

Medicare Accelerated and Advanced Payment Program

During fiscal year 2020, the Medical Center 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, such as the Medical Center. 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 June 30, 2020, the Medical Center received $4,861,708 from these accelerated Medicare payment requests. During the years ended June 30, 2022 and 2021, Medicare applied $1,843,895 and $0, respectively, from these accelerated Medicare payment requests against filed claims. 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, 2022 and 2021, respectively, based upon payback provisions in effect at June 30, 2022 and 2021, respectively.

Paycheck Protection Program (PPP) Loan

During fiscal year 2020, the Medical Center received a PPP loan of $1,863,555 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 Medical Center received legal notice on November 25, 2020, 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 Grant Funding

In November 2021, the Medical Center received and recognized $71,635 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Medical Center 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.

During the years ended June 30, 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 Medical Center received and recorded a receivable of $63,613 and $255,323 related to the SHIP grant for the year ended June 30, 2022, respectively. The Medical Center received and recorded a receivable of $20,000 and $63,613 related to the SHIP grant for the year ended June 30, 2021, respectively. The Medical Center recognized $255,323 and $83,613 related to the SHIP grant for the years ended June 30, 2022 and 2021, respectively. The revenue is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 14: Contingencies

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in *Notes 1* and *6*.

Employee Health Claims

Estimates related to the accrual for employee health claims are described in *Notes 1* and *7*.

General Litigation

The Medical Center is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by commercial insurance. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net assets and cash flows of the Medical Center. Events could occur that would change this estimate materially in the near term.

Note 15: 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 Medical Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 16: 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.

Note 17: Adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*

Effective July 1, 2021, the Medical Center 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 Medical Center was required to retroactively restate June 30, 2021, amounts as follows:

	As Restated	Previously Reported	Effect of Adoption
Balance Sheet			
Lease assets, net	$ 1,034,371	$ -	$ 1,034,371
Current portion of lease liabilities	96,963	-	96,963
Lease liabilities	956,737	-	956,737
Net position - net investment in capital assets	3,953,062	3,972,391	(19,329)
Statements of Revenues, Expenses and Changes in Net Position			
Supplies and other	7,912,908	8,057,418	(144,510)
Amortization	120,075	-	120,075
Interest expense	(57,049)	(13,285)	(43,764)
Increase in net position	3,719,066	3,738,395	(19,329)
Net position, end of year	8,931,773	8,951,102	(19,329)
Statements of Cash Flows			
Payments to suppliers	(8,041,763)	(8,186,273)	144,510
Principal paid on leases payable	(100,746)	-	(100,746)
Interest paid on leases payable	(43,764)	-	(43,764)
Operating loss	(2,726,187)	(2,750,622)	24,435
Amortization	120,075	-	120,075