

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
December 31, 2021 and 2020

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1551 N. Waterfront Parkway, Suite 300 / Wichita, KS 67206

P 316.265.2811 / F 316.265.9405

forvis.com

Independent Auditor's Report

Board of Trustees
Kiowa County Memorial Hospital
Greensburg, Kansas

Opinion

We have audited the accompanying financial statements of Kiowa County Memorial Hospital (KCMH), a component unit of Kiowa County, Kansas, and its discretely presented component unit, Great Plains of Kiowa County, Inc. (GPKC), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise KCMH'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 KCMH and of its discretely presented component unit as of December 31, 2021 and 2020, 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 KCMH 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 Kiowa County Memorial Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 Kiowa County Memorial Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kiowa County Memorial Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted 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 opinions on the basic financial statements is not affected by this missing information.

FORVIS,LLP

Wichita, Kansas
July 21, 2022

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Balance Sheets
December 31, 2021 and 2020

	KCMH		GPKC	
	2021	2020	2021	2020
Assets				
Current Assets				
Cash	\$ 1,900,860	\$ 554,824	\$ -	\$ 162,666
Cash - Provider Relief Funds	-	-	-	2,902,503
Cash held for debt service	-	-	-	318
Short-term certificates of deposit	2,781,398	2,088,877	-	-
Patient accounts receivable, net of allowance; 2021 – \$253,868, 2020 – \$118,741	1,429,153	-	-	873,185
Intergovernmental receivable	1,046,768	1,013,682	-	-
Estimated amounts due from third-party payers	-	-	-	691,418
Supplies	207,306	-	-	215,092
Prepaid expenses and other	420,576	519	-	226,392
Total current assets	<u>7,786,061</u>	<u>3,657,902</u>	<u>-</u>	<u>5,071,574</u>
Noncurrent Cash and Investments				
Funds held by County for debt service	115,630	-	-	115,630
Cash restricted for specific operating activities	324,306	-	-	12,304
Total noncurrent cash	<u>439,936</u>	<u>-</u>	<u>-</u>	<u>127,934</u>
Capital Assets, Net	<u>8,087,843</u>	<u>-</u>	<u>-</u>	<u>9,251,445</u>
Other Assets				
Other noncurrent assets	<u>1,599</u>	<u>-</u>	<u>-</u>	<u>1,665</u>
Total assets	<u>\$ 16,315,439</u>	<u>\$ 3,657,902</u>	<u>\$ -</u>	<u>\$ 14,452,618</u>

	KCMH		GPKC	
	2021	2020	2021	2020
Liabilities, Deferred Inflows of Resources and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 39,693	\$ -	\$ -	\$ 40,982
Accounts payable	189,397	46,677	-	108,108
Accrued expenses	644,781	-	-	413,445
Estimated amounts due to third-party payers	685,000	-	-	-
Unearned revenue	177,187	-	-	2,548,379
Total current liabilities	1,736,058	46,677	-	3,110,914
Long-term Debt	1,413,677	-	-	1,466,920
Total liabilities	3,149,735	46,677	-	4,577,834
Deferred Inflows of Resources				
Intergovernmental property taxes	1,046,768	1,013,682	-	-
Net Position				
Net investment in capital assets	6,634,473	-	-	7,743,543
Restricted - expendable for				
Debt service	115,630	-	-	115,948
Specific operating activities	985,387	-	-	12,218
Unrestricted	4,383,446	2,597,543	-	2,003,075
Total net position	12,118,936	2,597,543	-	9,874,784
Total liabilities, deferred inflows of resources and net position	\$ 16,315,439	\$ 3,657,902	\$ -	\$ 14,452,618

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	KCMH		GPKC	
	2021	2020	2021	2020
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$303,822, 2020 – \$173,494	\$ 6,566,638	\$ -	\$ -	\$ 6,162,653
Other	744,252	-	-	736,442
Total operating revenues	7,310,890	-	-	6,899,095
Operating Expenses				
Salaries and wages	3,931,719	-	-	4,054,115
Supplies and other	4,704,145	149,176	-	4,356,769
Depreciation and amortization	1,184,352	-	-	1,110,293
Total operating expenses	9,820,216	149,176	-	9,521,177
Operating Loss	(2,509,326)	(149,176)	-	(2,622,082)
Nonoperating Revenues (Expenses)				
Noncapital appropriations - Kiowa County	1,187,543	1,026,708	-	130,589
Noncapital grants and gifts	85,747	130	-	199,382
Other	-	-	-	5,000
Noncapital contributions between KCMH Board of Trustees and GPKC	-	(850,000)	-	850,000
Interest income	11,943	36,090	-	3,703
Interest expense	(60,300)	-	-	(62,779)
CARES Act funding	931,002	-	-	1,043,503
Paycheck Protection Program (PPP) loan forgiveness	-	-	-	745,600
Total nonoperating revenues	2,155,935	212,928	-	2,914,998
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants, Gifts and Contributions	(353,391)	63,752	-	292,916
Special Item				
Termination of lease agreement (Notes 1 and 12)	9,874,784	-	(9,874,784)	-
Increase (Decrease) in Net Position	9,521,393	63,752	(9,874,784)	292,916
Net Position, Beginning of Year	2,597,543	2,533,791	9,874,784	9,581,868
Net Position, End of Year	\$ 12,118,936	\$ 2,597,543	\$ -	\$ 9,874,784

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	KCMH		GPKC	
	2021	2020	2021	2020
Cash Flows From Operating Activities				
Receipts from and on behalf of patients	\$ 7,387,088	\$ -	\$ -	\$ 5,856,433
Payments to suppliers and contractors	(4,855,346)	(102,499)	-	(4,477,288)
Payments to and on behalf of employees	(3,700,383)	-	-	(4,206,613)
Other receipts, net	(1,626,940)	148,823	-	3,284,821
Net cash provided by (used in) operating activities	(2,795,581)	46,324	-	457,353
Cash Flows From Noncapital Financing Activities				
Property taxes supporting operations	1,187,543	1,026,708	-	130,589
Noncapital grants and gifts	85,747	130	-	199,382
Provider Relief Funds (<i>CARES Act</i>)	931,002	-	-	1,043,503
Proceeds from issuance of PPP loan	-	-	-	745,600
Noncapital contributions between Board of Trustees of KCMH and GPKC	-	(850,000)	-	850,000
activities	2,204,292	176,838	-	2,969,074
Cash Flows From Capital and Related Financing Activities				
Principal paid on long-term debt	(54,532)	-	-	(52,699)
Interest paid on long-term debt	(60,300)	-	-	(62,779)
Purchase of capital assets	(20,750)	-	-	(851,424)
Cash transfered on termination of lease agreement	3,193,421	-	(3,193,421)	-
Net cash provided by capital and related financing activities	3,057,839	-	(3,193,421)	(966,902)
Cash Flows From Investing Activities				
Interest income received	11,943	36,469	-	3,703
Purchase of certificates of deposits	(692,521)	(184,320)	-	-
Net cash used in investing activities	(680,578)	(147,851)	-	3,703
Increase (Decrease) in Cash	1,785,972	75,311	(3,193,421)	2,463,228
Cash, Beginning of Year	554,824	479,513	3,193,421	730,193
Cash, End of Year	\$ 2,340,796	\$ 554,824	\$ -	\$ 3,193,421

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	KCMH		GPKC	
	2021	2020	2021	2020
Reconciliation of Cash to the Balance Sheets				
Cash in current assets	\$ 1,900,860	\$ 554,824	\$ -	\$ 3,065,487
Cash in noncurrent cash	439,936	-	-	127,934
Total cash	<u>\$ 2,340,796</u>	<u>\$ 554,824</u>	<u>\$ -</u>	<u>\$ 3,193,421</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities				
Operating loss	\$ (2,509,326)	\$ (149,176)	\$ -	\$ (2,491,493)
Depreciation and amortization	1,184,352	-	-	1,110,293
Provision for uncollectible accounts	303,822	-	-	173,494
Other	66	148,823	-	112
Changes in operating assets and liabilities				
Patient accounts receivable, net	(859,790)	-	-	(88,296)
Estimated amounts due from and to third-party payers	1,376,418	-	-	(391,418)
Accounts payable and accrued expenses	265,948	46,677	-	(211,696)
Supplies and prepaid expenses and other	(185,879)	-	-	(61,433)
Unearned revenue	(2,371,192)	-	-	2,548,379
Net cash provided by (used in) operating activities	<u>\$ (2,795,581)</u>	<u>\$ 46,324</u>	<u>\$ -</u>	<u>\$ 587,942</u>
Noncash Investing, Capital and Financing Activities				
Gain (loss) on disposal of capital assets	\$ -	\$ -	\$ -	\$ 5,000
PPP loan forgiveness	\$ -	\$ -	\$ -	\$ 745,600
As discussed in <i>Notes 1 and 12</i> , effective January 1, 2021, the Hospital terminated its lease agreement with Great Plains of Kiowa County, Inc. In conjunction with the termination of the lease agreement, assets, liabilities and net position were transferred as follows:				
Assets	\$ 14,452,618	\$ -	\$ -	\$ (14,452,618)
Liabilities	(4,577,834)	-	-	4,577,834
Net position	<u>\$ 9,874,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,874,784)</u>

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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

Nature of Operations and Reporting Entity

Kiowa County Memorial Hospital (KCMH or the Hospital) is located in Greensburg, Kansas, and provides acute, swing-bed and physician clinic services. The Hospital is licensed as a critical access hospital (CAH). KCMH is a component unit of Kiowa County, Kansas (County). The Board of Trustees (BOT) of the Hospital is elected by the voters of the County.

Prior to January 1, 2021, the Board of Trustees of Kiowa County Memorial Hospital leased the hospital facilities, including buildings, as well as equipment and other assets, to Great Plains of Kiowa County (GPKC) for one dollar. Great Plains Health Alliance, Inc. (GPHA) is the sole member of GPKC. The lease agreement provided that GPKC would assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. All assets, including working capital and liabilities were transferred to GPKC upon commencement of the original term, January 23, 2001. During the term of the lease agreement, the BOT continued to operate and control the use of tax appropriations and separate financial statements were issued for the BOT. Either party had the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 90-day notice. The BOT elected to terminate the lease agreement effective January 1, 2021. Effective with the termination of the lease agreement, all assets, including working capital and liabilities, transferred back to KCMH (see *Note 12*).

Basis of Accounting and Presentation

The financial statements of KCMH have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated 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 nonexchange transactions. Government-mandated 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. KCMH first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Kiowa County Memorial Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

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 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 were no cash equivalents at December 31, 2021 and 2020.

Certificates of Deposit

Certificates of deposits have maturities of one year or less and are carried at amortized cost.

Noncurrent Cash and Investments

Noncurrent cash and investments include cash restricted by donors/grantors for specific operating activities and funds held by trustee for debt service, which consist of money market accounts and investments in U.S. Government and agency obligations with a maturity of one year or less at time of acquisition carried at amortized cost.

Property Taxes and Noncapital Contributions – Kiowa County

KCMH and GPKC received approximately 13% and 11% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2021 and 2020, respectively. One hundred percent of these funds were used to support operations.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

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; workers' compensation; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair 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 – 20 years
Buildings	5 – 30 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations.

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 or lease asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Kiowa County Memorial Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Compensated Absences

Hospital 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. 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 rates in effect at the balance sheet date.

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, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital 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.

Kiowa County Memorial Hospital

A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2021 and 2020

Provider Relief Funds (CARES Act)

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

Paycheck Protection Program (PPP) Loan

GPKC 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. GPKC received legal notice on November 2, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

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.

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.

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. The reclassifications had no effect on the changes in financial position.

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 Board of Trustees' 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, 2021 and 2020, respectively, \$4,526,170 and \$2,088,809 of the Hospital's bank balances of \$4,682,258 and \$2,643,701 were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution's trust department or agent in the Hospital's name	\$ 4,526,170	\$ 2,088,809

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets at December 31, 2021 and 2020, as follows:

	2021	2020
Carrying value		
Deposits	\$ 4,682,258	\$ 2,643,701
Included in the following balance sheet captions		
Cash	\$ 1,900,860	\$ 554,824
Short-term certificates of deposit	2,781,398	2,088,877
	\$ 4,682,258	\$ 2,643,701

Kiowa County Memorial Hospital

A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2021 and 2020

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:

	2021	2020
Medicare	\$ 770,373	\$ 458,265
Medicaid	167,545	85,934
Blue Cross	143,393	100,089
Other third-party payers	193,208	156,899
Self-pay	408,502	190,739
	<u>1,683,021</u>	<u>991,926</u>
Less allowance for uncollectible accounts	<u>253,868</u>	<u>118,741</u>
Patient accounts receivable, net	<u><u>\$ 1,429,153</u></u>	<u><u>\$ 873,185</u></u>

Note 4: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

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

Medicare. The Hospital is recognized as a CAH. 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 Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The clinics are recognized as rural health clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement are determined in a similar manner as for hospital services.

Kiowa County Memorial Hospital

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Notes to Financial Statements

December 31, 2021 and 2020

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. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

Approximately 80% and 88% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2021 and 2020, was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,686,710	-	-	(157,120)	20,529,590
Fixed equipment	971,035	-	-	(124,245)	846,790
Major moveable equipment	3,086,269	20,750	(182,284)	281,365	3,206,100
	<u>24,871,754</u>	<u>20,750</u>	<u>(182,284)</u>	<u>-</u>	<u>24,710,220</u>
Less accumulated depreciation					
Buildings and improvements	12,606,892	951,861	-	(157,120)	13,401,633
Fixed equipment	740,426	41,652	-	(124,245)	657,833
Major moveable equipment	2,272,991	190,839	(182,284)	281,365	2,562,911
	<u>15,620,309</u>	<u>1,184,352</u>	<u>(182,284)</u>	<u>-</u>	<u>16,622,377</u>
Capital Assets, Net	<u><u>\$ 9,251,445</u></u>	<u><u>\$(1,163,602)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,087,843</u></u>

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	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,642,498	44,212	-	-	20,686,710
Fixed equipment	885,047	85,988	-	-	971,035
Major moveable equipment	2,898,801	726,224	(538,756)	-	3,086,269
	<u>24,554,086</u>	<u>856,424</u>	<u>(538,756)</u>	<u>-</u>	<u>24,871,754</u>
Less accumulated depreciation					
Buildings and improvements	11,614,591	992,301	-	-	12,606,892
Fixed equipment	710,963	29,463	-	-	740,426
Major moveable equipment	2,723,218	88,529	(538,756)	-	2,272,991
	<u>15,048,772</u>	<u>1,110,293</u>	<u>(538,756)</u>	<u>-</u>	<u>15,620,309</u>
Capital Assets, Net	<u>\$ 9,505,314</u>	<u>\$ (253,869)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,251,445</u>

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium 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 malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

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Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2021 and 2020:

2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 1,504,164	\$ -	\$ 51,434	\$ 1,452,730	\$ 39,053
Capital lease obligations	3,738	-	3,098	640	640
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 1,507,902</u>	<u>\$ -</u>	<u>\$ 54,532</u>	<u>\$ 1,453,370</u>	<u>\$ 39,693</u>

2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 1,553,455	\$ -	\$ 49,291	\$ 1,504,164	\$ 37,551
Capital lease obligations	7,146	-	3,408	3,738	3,431
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term debt	<u>\$ 1,560,601</u>	<u>\$ -</u>	<u>\$ 52,699</u>	<u>\$ 1,507,902</u>	<u>\$ 40,982</u>

Revenue Bonds Payable

In 2010, the County entered into an agreement with the United States Department of Agriculture (USDA) to issue bonds to assist with the financing of the new hospital construction. The bonds bear interest at 4%, are due semi-annually in increasing principal amounts with final bonds maturing January 2049. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the Kansas State Treasurer, acting as the paying agent. The financed assets and related bond indebtedness have been included in the accompanying financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital. During 2016, the Hospital made an early principal payment of \$250,000 to reduce the annual interest payments. The final bonds will now mature in January 2046.

Bonds may be redeemed in advance of their maturity at 100% of face value.

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The bond indentures require certain covenants, including financial, to be met. The financial covenants include a rate covenant that requires a debt service coverage ratio of 1.0 to be met and through 2011, monthly deposits to be made to separate accounts for debt service payments and to fund a debt service reserve. During 2021 and 2020, the Hospital met the debt service coverage ratio of 1.0.

The debt service requirements for the revenue bonds payable as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 97,162	\$ 39,053	\$ 58,109
2023	97,162	40,615	56,547
2024	96,969	42,046	54,923
2025	97,162	43,921	53,241
2026	97,162	45,678	51,484
2027-2031	485,636	257,108	228,528
2032-2036	485,535	312,707	172,828
2037-2041	485,716	380,659	105,057
2042-2045	316,417	290,943	25,474
	<u>\$ 2,258,921</u>	<u>\$ 1,452,730</u>	<u>\$ 806,191</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2021 and 2020, totaled \$0 and \$2,442, respectively, net of accumulated depreciation of \$26,639 and \$24,197, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 8.00% together with the present value of the future minimum lease payments as of December 31, 2021:

Year ending December 31,	\$ 646
Total minimum lease payments	646
Less amount representing interest	6
Present value of future minimum lease payments	<u>\$ 640</u>

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Note 8: Pension Plan

KCMH contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the board of trustees of the Hospital. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 6.2% and 6.2%, respectively, for 2021. Contributions actually made by plan members and the Hospital aggregated \$348,599 and \$354,467, respectively, during 2021.

Prior to the termination of the lease on January 1, 2021, the Hospital employees were eligible to participate in the GPHA defined contribution pension and tax deferred annuity plans. All employees, to be eligible for employer contributions, must have completed one year of service, with a minimum of 1,000 paid hours of service and must be at least 18 years of age. Employee contributions are mandatory beginning with the first day of service if 18 years of age or older. Benefits are funded by an annuity contract with an insurance company. Employer contributions are computed at a rate of 5% of annual compensation plus 10% of the excess over \$16,000. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5.0% of the excess over \$16,000. The Plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the Plan to the employee's normal retirement date. Employer contributions vest at 20% per year of service with 100% vesting after five years of service. Contributions actually made by plan members and the Hospital aggregated \$194,703 and \$310,739, respectively, during 2021.

Note 9: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$682,211 and \$672,487 for the years ending December 31, 2021 and 2020, respectively, included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$305,438 and \$319,763 for the years ending December 31, 2021 and 2020, 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.

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Note 10: Great Plains Employee Benefits Trust

In response to amendments to the 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.

Note 11: 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 Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business.

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.

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

Provider Relief Fund

During 2021, the Hospital received \$491,447 from GPKC upon termination of the lease agreement and recorded a receivable for \$245,985 related to additional revenue recognized on Phase 1 funding for a change in estimate from what GPKC had recorded as part of the December 31, 2020, audited financials. The Hospital received \$132,411 and \$138,345 of distributions from the *American Rescue Plan Act* and Phase 4 of the *CARES Act* Provider Relief Fund, respectively. During 2021, GPKC received \$3,590,301 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, 2021 and 2020, the Hospital recognized \$831,002 and \$1,043,503, 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 \$177,187 and \$2,546,798 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS for the years ended December 31, 2021 and 2020, and has recognized revenue accordingly. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions the Hospital's ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

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Other COVID-19 Funding

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received and recognized \$100,000 on April 24, 2020, related to this special emergency grant. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital recognized \$83,613 for the year-ended December 31, 2021, related to SHIP 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.

During 2021, HHS provided \$100 million in aid to hospitals and health care systems in preparing for a surge in COVID-19 patients. Of that funding, \$50 million was allotted to State Hospitals Associations for distribution through competitive grant applications. KHA received \$784,542 in funds, which were distributed on May 1. In addition, KHA was awarded an additional \$1.95 million to be distributed in the future. The Hospital received and recognized \$3,000 during 2021, related to this Assistant Secretary for Preparedness and Response (ASPR) grant. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received and recognized \$59,696 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.

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Note 12: Termination of Lease Agreement

The assets and liabilities transferred to KCMH represent an integrated set of assets and liabilities managed for the purpose of providing acute care and clinic services in the Kiowa County, Kansas area. There was no consideration given in the transaction. KCMH determined that no adjustments were necessary to the carrying values of assets transferred and as such, no impairment of capital assets transferred was recognized. As a result of the transfer, KCMH recognized the following assets, liabilities and net position:

	Carrying Value
Assets	
Current assets	\$ 5,071,574
Noncurrent cash	127,934
Capital assets, net (<i>Note 5</i>)	9,251,445
Other assets	<u>1,665</u>
Total assets	<u><u>\$ 14,452,618</u></u>
Liabilities	
Current liabilities	\$ 3,110,914
Long-term debt (<i>Note 7</i>)	<u>1,466,920</u>
Total liabilities	<u><u>\$ 4,577,834</u></u>
Net Position	
Net investment in capital assets	\$ 7,743,543
Restricted - expendable for debt service	115,948
Restricted - expendable for specific operating activities	12,218
Unrestricted	<u>2,003,075</u>
Total net position	<u><u>\$ 9,874,784</u></u>

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Note 13: Future Change in Accounting Principle

Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Note 14: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.