

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2021 and 2020

Wichita County Health Center
A Component Unit of Wichita County, Kansas
December 31, 2021 and 2020

Contents

Independent Auditor's Report.....	1
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Financial Statements

Balance Sheets.....	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	8

Independent Auditor's Report

Board of Trustees
Wichita County Health Center
Leoti, Kansas

Opinion

We have audited the accompanying financial statements of Wichita County Health Center, a component unit of Wichita County, Kansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Wichita County Health 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 Wichita County Health Center 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 Wichita County Health 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.

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 Wichita County Health 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.

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

BKD, LLP

Wichita, Kansas
April 11, 2022

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Balance Sheets
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 3,021,126	\$ 6,176,640
Patient accounts receivable, net of allowance; 2021 – \$5,411; 2020 – \$11,752	981,600	1,212,079
Estimated amounts due from third-party payers	356,229	275,625
Other receivables	73,281	183,144
Supplies	233,789	225,684
Prepaid expenses and other	<u>278,993</u>	<u>4,363</u>
Total current assets	<u>4,945,018</u>	<u>8,077,535</u>
Internally Designated for Debt Service	<u>84,750</u>	<u>84,708</u>
Capital Assets, Net	<u>2,401,331</u>	<u>1,943,793</u>
Total assets	<u><u>\$ 7,431,099</u></u>	<u><u>\$ 10,106,036</u></u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 104,677	\$ 142,330
Accounts payable	443,823	489,745
Accrued expenses	583,415	633,742
Unearned revenue	100,000	3,306,882
Advance from Medicare	<u>1,187,423</u>	<u>626,702</u>
Total current liabilities	<u>2,419,338</u>	<u>5,199,401</u>
Advance from Medicare	<u>-</u>	<u>1,585,175</u>
Long-term Debt	<u>708,599</u>	<u>813,434</u>
Total liabilities	<u>3,127,937</u>	<u>7,598,010</u>
Net Position		
Net investment in capital assets	1,588,055	988,029
Unrestricted	<u>2,715,107</u>	<u>1,519,997</u>
Total net position	<u>4,303,162</u>	<u>2,508,026</u>
Total liabilities and net position	<u><u>\$ 7,431,099</u></u>	<u><u>\$ 10,106,036</u></u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$74,065; 2020 – \$72,719	\$ 8,809,053	\$ 7,814,361
Other	<u>350,206</u>	<u>511,510</u>
Total operating revenues	<u>9,159,259</u>	<u>8,325,871</u>
Operating Expenses		
Salaries and wages	4,812,904	4,924,376
Employee benefits	1,100,581	1,077,814
Purchased services and professional fees	2,621,021	1,973,622
Supplies and other	1,949,499	1,776,184
Depreciation	<u>366,234</u>	<u>327,859</u>
Total operating expenses	<u>10,850,239</u>	<u>10,079,855</u>
Operating Loss	<u>(1,690,980)</u>	<u>(1,753,984)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Wichita County	1,448,045	1,474,648
Noncapital grants and gifts	204,474	300,603
Reimbursement from County	13,278	7,956
Interest income	5,956	15,525
Interest expense	(31,329)	(38,307)
Provider Relief Funds (<i>CARES Act</i>)	1,845,692	265,775
Paycheck Protection Program (PPP) loan forgiveness	<u>-</u>	<u>806,200</u>
Total nonoperating revenues	<u>3,486,116</u>	<u>2,832,400</u>
Increase in Net Position	1,795,136	1,078,416
Net Position, Beginning of Year	<u>2,508,026</u>	<u>1,429,610</u>
Net Position, End of Year	<u><u>\$ 4,303,162</u></u>	<u><u>\$ 2,508,026</u></u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 7,934,474	\$ 9,420,918
Payments to suppliers	(5,725,128)	(5,131,768)
Payments to employees	(4,863,231)	(4,869,302)
Other receipts, net	(3,021,443)	3,774,973
	<u>(5,675,328)</u>	<u>3,194,821</u>
Net cash provided by (used in) operating activities	<u>(5,675,328)</u>	<u>3,194,821</u>
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Wichita County	1,448,045	1,474,648
Noncapital grants and gifts	204,474	300,603
Reimbursement from County	13,278	7,956
Provider Relief Funds (<i>CARES Act</i>)	1,845,692	265,775
Proceeds from issuance of PPP loan	-	806,200
	<u>3,511,489</u>	<u>2,855,182</u>
Net cash provided by noncapital financing activities	<u>3,511,489</u>	<u>2,855,182</u>
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(142,488)	(168,019)
Interest paid on notes payable to bank and long-term debt	(31,329)	(38,307)
Purchases of capital assets	(823,772)	(57,625)
	<u>(997,589)</u>	<u>(263,951)</u>
Net cash used in capital and related financing activities	<u>(997,589)</u>	<u>(263,951)</u>
Cash Flows From Investing Activities		
Interest income	5,956	15,525
	<u>5,956</u>	<u>15,525</u>
Net cash provided by investing activities	<u>5,956</u>	<u>15,525</u>
Increase (Decrease) in Cash	(3,155,472)	5,801,577
Cash, Beginning of Year	<u>6,261,348</u>	<u>459,771</u>
Cash, End of Year	<u><u>\$ 3,105,876</u></u>	<u><u>\$ 6,261,348</u></u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 3,021,126	\$ 6,176,640
Internally designated for debt service	<u>84,750</u>	<u>84,708</u>
Total cash	<u><u>\$ 3,105,876</u></u>	<u><u>\$ 6,261,348</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,690,980)	\$ (1,753,984)
Depreciation	366,234	327,859
Provision for uncollectible accounts	74,065	72,719
Changes in operating assets and liabilities		
Patient accounts receivable, net	156,414	(522,414)
Estimated amounts due from and to third-party payers	(1,105,058)	2,056,252
Other receivables	109,863	(45,444)
Supplies	(8,105)	(29,553)
Prepaid expenses and other	(274,630)	2,025
Accounts payable and accrued expenses	(96,249)	(219,521)
Unearned revenue	<u>(3,206,882)</u>	<u>3,306,882</u>
Net cash provided by (used in) operating activities	<u><u>\$ (5,675,328)</u></u>	<u><u>\$ 3,194,821</u></u>
Noncash Investing, Capital and Financing Activities		
PPP loan forgiveness	\$ -	\$ 806,200

Wichita County Health Center
A Component Unit of Wichita 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

Wichita County Health Center (Health Center) is an acute care hospital located in Leoti, Kansas. The Health Center is considered a component unit of Wichita County. The Health Center is governed by an elected Board of Trustees. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services. The Health Center also provides long-term care and clinic services. The long-term care facility is doing business as Golden Acres.

Basis of Accounting and Presentation

The financial statements of the Health 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 federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health 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 and 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 Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Patient Accounts Receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health 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 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 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 Health Center:

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

Capital Asset Impairment

The Health Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Compensated Absences

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

Risk Management

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

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

Paycheck Protection Program (PPP) Loan

The Health 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 Health Center 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 in the accompanying statements of revenues, expenses and changes in net position.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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 Health 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 Health 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 – Wichita County

The Health Center received approximately 11% and 13% of its 2021 and 2020, respectively, financial support from noncapital appropriations from Wichita County property tax levy and special sales tax support.

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

Wichita County Health Center
A Component Unit of Wichita 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 Health 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 HHS. The Health Center 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.

Income Taxes

As an essential government function of the County, the Health 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. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

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 Health 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.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

At December 31, 2021 and 2020, respectively, \$2,888,546 and \$6,092,093 of the Health Center's bank balances of \$3,138,546 and \$6,342,093 were exposed to custodial credit risk as follows:

	<u>2021</u>	<u>2020</u>
Collateral held by pledging financial institution's trust department or agent in other than the Health Center's name	<u>\$ 2,888,546</u>	<u>\$ 6,092,093</u>

Note 3: Patient Accounts Receivable

The Health 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 December 31 consisted of:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 597,375	\$ 956,347
Medicaid	52,640	17,476
Other third-party payers	127,294	83,829
Self-pay	<u>209,702</u>	<u>166,179</u>
	987,011	1,223,831
Less allowance for uncollectible accounts	<u>(5,411)</u>	<u>(11,752)</u>
	<u><u>\$ 981,600</u></u>	<u><u>\$ 1,212,079</u></u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,950	\$ -	\$ -	\$ -	\$ 7,950
Land improvements	186,031	-	-	-	186,031
Buildings	4,569,038	-	-	-	4,569,038
Fixed equipment	1,693,122	-	-	-	1,693,122
Major moveable equipment	1,898,348	823,772	(310,592)	-	2,411,528
	<u>8,354,489</u>	<u>823,772</u>	<u>(310,592)</u>	<u>-</u>	<u>8,867,669</u>
Less accumulated depreciation					
Land improvements	183,286	686	-	-	183,972
Buildings	3,354,120	119,452	-	-	3,473,572
Fixed equipment	1,252,774	53,067	-	-	1,305,841
Major moveable equipment	1,620,516	193,029	(310,592)	-	1,502,953
	<u>6,410,696</u>	<u>366,234</u>	<u>(310,592)</u>	<u>-</u>	<u>6,466,338</u>
Capital Assets, Net	<u>\$ 1,943,793</u>	<u>\$ 457,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,401,331</u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,950	\$ -	\$ -	\$ -	\$ 7,950
Land improvements	186,031	-	-	-	186,031
Buildings	4,569,038	-	-	-	4,569,038
Fixed equipment	1,693,122	-	-	-	1,693,122
Major moveable equipment	1,856,973	57,625	(16,250)	-	1,898,348
	<u>8,313,114</u>	<u>57,625</u>	<u>(16,250)</u>	<u>-</u>	<u>8,354,489</u>
Less accumulated depreciation					
Land improvements	182,599	687	-	-	183,286
Buildings	3,229,889	124,231	-	-	3,354,120
Fixed equipment	1,197,696	55,078	-	-	1,252,774
Major moveable equipment	1,488,903	147,863	(16,250)	-	1,620,516
	<u>6,099,087</u>	<u>327,859</u>	<u>(16,250)</u>	<u>-</u>	<u>6,410,696</u>
Capital Assets, Net	<u>\$ 2,214,027</u>	<u>\$ (270,234)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,943,793</u>

Note 5: Long-term Obligations

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

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	\$ 49,806	\$ -	\$ 8,619	\$ 41,187	\$ 9,109
Revenue bonds payable Series 2019	733,126	-	27,816	705,310	28,789
Capital lease obligations	172,832	-	106,053	66,779	66,779
	<u>\$ 955,764</u>	<u>\$ -</u>	<u>\$ 142,488</u>	<u>\$ 813,276</u>	<u>\$ 104,677</u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

	2020				
	Beginning Balance	Additions	Deduction	Ending Balance	Current Portion
Note payable to bank	\$ 57,741	\$ -	\$ 7,935	\$ 49,806	\$ 8,462
PPP loan payable to bank	-	806,200	806,200	-	-
Revenue bonds payable Series 2019	760,000	-	26,874	733,126	27,815
Capital lease obligations	306,042	-	133,210	172,832	106,053
	<u>\$ 1,123,783</u>	<u>\$ 806,200</u>	<u>\$ 974,219</u>	<u>\$ 955,764</u>	<u>\$ 142,330</u>

Revolving Bank Line of Credit

The Health Center has a \$150,000 revolving bank line of credit that expired June 1, 2020. Management terminated the line of credit on the maturity date.

Note Payable to Bank

The Health Center has a note payable to bank. The note payable to bank is due February 15, 2026, with principal payable monthly and interest at prime plus 2% payable monthly. The note is secured by certain capital assets.

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 Health Center received a PPP loan of \$806,200 in 2020. The loan had an interest rate of 1%. The Health Center received legal notice on November 2, 2020, that the PPP loan was forgiven in its entirety.

Hospital Revenue Bonds – Series 2019

The Series 2019 Hospital Revenue Bonds payable consist of bonds in the original amount of \$760,000 dated July 24, 2019, which bear interest at 3.50%. The bonds are payable in annual installments through July 24, 2039. The bonds are secured by the net revenues of the Health Center. Proceeds from the issuance of these bonds were used to pay project costs related to capital expenditures.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Debt Service Requirements

The debt service requirements on long-term debt other than capital lease obligations as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Note Payable	
		Principal	Interest	Principal	Interest
2022	\$ 64,462	\$ 28,789	\$ 24,686	\$ 9,109	\$ 1,878
2023	64,760	29,796	23,678	9,582	1,704
2024	64,390	30,839	22,365	10,076	1,110
2025	64,548	31,918	21,556	10,602	472
2026	55,307	33,036	20,439	1,818	14
2027-2031	267,372	183,352	84,020	-	-
2032-2036	267,371	217,764	49,607	-	-
2037-2039	160,423	149,816	10,607	-	-
	<u>\$ 1,008,633</u>	<u>\$ 705,310</u>	<u>\$ 256,958</u>	<u>\$ 41,187</u>	<u>\$ 5,178</u>

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Property and equipment include the following property under capital leases at December 31, 2021 and 2020:

	2021	2020
Equipment	\$ 416,929	\$ 646,160
Less accumulated depreciation	<u>354,379</u>	<u>478,458</u>
	<u>\$ 62,550</u>	<u>\$ 167,702</u>

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.95% together with the present value of the future minimum lease payments as of December 31, 2021:

Year Ending December 31,	
2022	\$ 67,700
Total minimum lease payments	67,700
Less amount representing interest	921
Present value of future minimum lease payments	\$ 66,779

Note 6: Professional Liability Coverage and Claims

The Health Center purchases professional liability 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 professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Health 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: Net Patient Service Revenue

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

Medicare. The Health Center is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare administrative contractor.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
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. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 85% and 86% of net patient service revenues are 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 Health 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 Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$2,000 and \$33,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: 340B Drug Pricing Program

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of \$297,273 and \$476,625 for the years ending December 31, 2021 and 2020, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Health Center recorded expenses related to the 340B Program of \$272,324 and \$289,232 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. The 340B 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.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Note 10: Pension Plans

The Health Center maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Health Center are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Health Center which are not vested will be returned to the Health Center. Contributions actually made by plan members and the Health Center aggregated \$113,343 and \$169,994 during 2021 and \$114,714 and \$178,176 during 2020, respectively. The Health Center does not control the plan assets.

The Health Center provides one additional defined contribution plan (457 plan). Contributions made by plan members totaled \$65,487 and \$65,598 during 2021 and 2020, respectively. The Health Center does not make contributions to the 457 plan. The plan year begins on January 1 and ends December 31. The Health Center does not control the plan assets.

Note 11: Reimbursement from County

Reimbursements of \$13,278 and \$7,956 for 2021 and 2020, respectively, represent reimbursement of compensation paid to a case manager employed by the Health Center.

Note 12: COVID-19 Pandemic & CARES Act Funding

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

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

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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

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

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Health Center received \$129,060 and \$3,572,657, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Health 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 HHS.

The Health Center 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 Health Center's operating revenues and expenses through December 31, 2021 and 2020, the Health Center recognized \$1,845,692 and \$265,775, 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 Health Center paid back \$1,490,250 and \$0 of Provider Relief Funds for the years ended December 31, 2021 and 2020, respectively. The unrecognized amount of Provider Relief Fund distributions of \$100,000 and \$3,306,882 is recorded as unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Health 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 or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

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

During the year ended December 31, 2020, the Health Center received \$2,211,874 from these accelerated Medicare payment requests. During the year ended December 31, 2021, Medicare has applied \$1,024,454 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 classified as a current and a long-term liability based upon payback provisions in effect at December 31, 2021 and 2020.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Health Center received a PPP loan of \$806,200 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 Health Center 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 in the accompanying statements of revenues, expenses and changes in net position.

Other COVID-19 Funding

In October 2021, the Health Center received and recognized \$99,493 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Health 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 year ended December 31, 2020, 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 Health Center received \$28,296 and recorded a receivable for \$55,317, which is recorded as a component of other receivables in the accompanying balance sheets, for the year-ended December 31, 2020. The Health Center recognized \$83,613 for the year-ended December 31, 2020, 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.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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 Health Center 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 the year ended December 31, 2020, HHS provided \$100 million in aid to hospitals and health care systems in preparing for a surge in COVID-19 patients. Of that funding, \$50 million was allotted to State Hospitals Associations for distribution through competitive grant applications. KHA received \$784,542 in funds, which were distributed on May 1, 2020. In addition, KHA was awarded an additional \$1.95 million to be distributed in the future. The Health Center received and recognized \$3,000 during 2020, 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.

During the year ended December 31, 2020, the Health Center received funding through the Strengthening People and Revitalizing Kansas (SPARK) program. The Health Center received and recognized \$80,517 during 2020, related to this funding. These payments are recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 13: 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 Health Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

Note 14: 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 Health Center is evaluating the impact the statement will have on the financial statements.