Medicine Lodge Memorial Hospital

A Component Unit of Medicine Lodge Township, Kansas



Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Medicine Lodge Memorial Hospital
Medicine Lodge, Kansas

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Medicine Lodge 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Medicine Lodge 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 Medicine Lodge 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 management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

FORVIS, LLP

Wichita, Kansas
May 22, 2023

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash	$ 2,219,256	$ 2,132,376
Patient accounts receivable, net of allowance; 2022 - $539,299, 2021 - $295,983	1,553,588	1,328,011
Property and sales tax receivable	60,444	47,664
Estimated amounts due from third-party payers	-	250,550
Supplies	224,066	254,896
Prepaid expenses and other	67,975	62,676
Other receivables	63,168	28,127
Total current assets	4,188,497	4,104,300
Noncurrent Cash and Investments		
Designated by Board of Trustees	3,667,029	2,650,259
Restricted by donors for specific operating activities	100	100
Ranch land and mineral interests, at cost	89,078	89,078
	3,756,207	2,739,437
Capital Assets, Net	6,469,233	7,008,540
Total assets	$ 14,413,937	$ 13,852,277

See Notes to Financial Statements

Liabilities and Net Position

	2022	2021
Current Liabilities		
Current maturities of long-term debt	$ 175,943	$ 190,414
Accounts payable	145,411	192,938
Accrued salaries and wages	160,538	221,283
Accrued vacation	404,132	399,841
Other accrued expenses	101,587	32,871
Accrued bond interest	34,822	36,498
Estimated amounts due to third-party payers	146,000	-
Unearned revenue	-	125,106
Total current liabilities	1,168,433	1,198,951
Long-term Debt	3,359,996	3,550,115
Total liabilities	4,528,429	4,749,066
Net Position		
Net investment in capital assets	2,933,294	3,268,011
Restricted - expendable for specific operating activities	100	100
Unrestricted	6,952,114	5,835,100
Total net position	9,885,508	9,103,211
Total liabilities and net position	$ 14,413,937	$ 13,852,277

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 - $350,066, 2021 - $144,731	$ 10,793,785	$ 10,315,784
340B Drug Program	766,495	689,762
Other	50,282	127,636
Total operating revenues	11,610,562	11,133,182
Operating Expenses		
Salaries and wages	6,311,412	6,091,778
Employee benefits	1,323,809	1,305,181
Purchased services and professional fees	1,717,183	1,514,240
Supplies and other	2,643,523	2,170,086
Depreciation	993,887	1,001,846
Total operating expenses	12,989,814	12,083,131
Operating Loss	(1,379,252)	(949,949)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - County and City	725,339	661,842
Interest income	19,738	6,692
Loss on disposal of capital assets	(16,025)	-
Interest expense	(123,747)	(129,802)
Noncapital grants and gifts	390,171	79,167
Ranch income, net of expense	46,435	26,962
Provider Relief Funds (*CARES Act*)	1,119,638	1,393,589
Total nonoperating revenues	2,161,549	2,038,450
Increase in Net Position	782,297	1,088,501
Net Position, Beginning of Year	9,103,211	8,014,710
Net Position, End of Year	$ 9,885,508	$ 9,103,211

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 10,964,758	$ 10,036,733
Payments to suppliers and contractors	(5,706,511)	(4,985,383)
Payments to employees	(6,300,826)	(6,214,788)
Other receipts (payments), net	656,630	(1,039,118)
Net cash used in operating activities	(385,949)	(2,202,556)
Cash Flows from Noncapital Financing Activities		
Noncapital appropriations supporting operations	712,559	660,683
Noncapital grants and gifts	390,171	79,167
Provider Relief Funds (*CARES Act*)	1,119,638	1,393,589
Net cash provided by noncapital financing activities	2,222,368	2,133,439
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	116,250
Principal paid on long-term debt	(204,590)	(309,028)
Interest paid on long-term debt	(123,747)	(129,802)
Purchases of capital assets	(470,605)	(71,580)
Net cash used in capital and related financing activities	(798,942)	(394,160)
Cash Flows from Investing Activities		
Ranch operations	46,435	26,962
Interest income received	19,738	6,692
Net cash provided by investing activities	66,173	33,654
Increase (Decrease) in Cash	1,103,650	(429,623)
Cash, Beginning of Year	4,782,735	5,212,358
Cash, End of Year	$ 5,886,385	$ 4,782,735
Reconciliation of Cash to the Balance Sheets		
Cash	$ 2,219,256	$ 2,132,376
Noncurrent cash designated by Board of Trustees	3,667,029	2,650,259
Noncurrent cash restricted by donors	100	100
Total cash	$ 5,886,385	$ 4,782,735

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,379,252)	$ (949,949)
Depreciation	993,887	1,001,846
Provision for uncollectible accounts	350,066	144,731
Changes in operating assets and liabilities		
Patient accounts receivable, net	(575,643)	(273,232)
Estimated amounts due from and to third-party payers	396,550	(150,550)
Supplies	30,830	(14,258)
Prepaid expenses and other	(5,299)	34,668
Other receivables	(35,041)	21,101
Accounts payable and accrued expenses	(36,941)	(139,296)
Unearned revenue	(125,106)	(1,877,617)
Net cash used in operating activities	$ (385,949)	$ (2,202,556)

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents for the years ended December 31, 2022 and 2021.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for the 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.

Noncurrent Cash and Investments

As of December 31, 2022 and 2021, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

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 and leasehold improvements 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	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Capital Asset Impairment

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation 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. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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 Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Leases

Effective January 1, 2022, the Hospital adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. The Hospital's lease agreements that were in effect during 2021 and 2022 are immaterial to the financial statements, as a result there are no right-to-use assets or lease liabilities recorded on the balance sheets.

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 balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is 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 expendable.

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

Noncapital Appropriations – County and City

The Hospital received approximately 5% of its financial support from noncapital appropriations derived from property and sales taxes in 2022 and 2021, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

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

Appropriations derived from sales tax revenue are recognized based on sales tax collected by the Township's retailers in the Hospital's accounting period.

Provider Relief Funds (CARES Act)

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

Income Taxes

As an essential government entity, 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.

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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2022 and 2021, respectively, $5,653,109 and $4,585,283 of the Hospital's bank balances of $5,954,140 and $4,876,671 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 5,653,109	$ 4,585,283

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	$ 5,885,525	$ 4,781,875
Petty cash	860	860
	$ 5,886,385	$ 4,782,735
Included in the following balance sheet captions		
Cash in current assets	$ 2,219,256	$ 2,132,376
Designated by Board of Trustees	3,667,029	2,650,259
Restricted by donors	100	100
	$ 5,886,385	$ 4,782,735

Note 3: Patient Accounts Receivable

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

	2022	2021
Medicare	$ 1,049,078	$ 832,576
Medicaid	55,139	42,835
Blue Cross	131,421	133,454
Other third-party payers	215,478	127,467
Self-pay	641,771	487,662
	2,092,887	1,623,994
Less allowance for uncollectible accounts	(539,299)	(295,983)
	$ 1,553,588	$ 1,328,011

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,129	$ -	$ -	$ -	$ 11,129
Land improvements	259,904	18,000	-	-	277,904
Buildings	10,693,249	179,615	-	-	10,872,864
Fixed equipment	1,635,421	24,450	-	-	1,659,871
Major moveable equipment	3,022,696	199,808	25,673	-	3,196,831
Construction in progress	-	48,732	-	-	48,732
	15,622,399	470,605	25,673	-	16,067,331
Less accumulated depreciation					
Land improvements	161,044	10,143	-	-	171,187
Buildings	5,329,352	572,161	-	-	5,901,513
Fixed equipment	1,099,237	82,579	-	-	1,181,816
Major moveable equipment	2,024,226	329,004	9,648	-	2,343,582
	8,613,859	993,887	9,648	-	9,598,098
Capital Assets, Net	$ 7,008,540	$ (523,282)	$ 16,025	$ -	$ 6,469,233

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 11,129	$ -	$ -	$ -	$ 11,129
Land improvements	259,904	-	-	-	259,904
Buildings	10,693,249	-	-	-	10,693,249
Fixed equipment	1,632,836	5,920	3,335	-	1,635,421
Major moveable equipment	2,991,752	65,660	34,716	-	3,022,696
	15,588,870	71,580	38,051	-	15,622,399
Less accumulated depreciation					
Land improvements	144,363	16,681	-	-	161,044
Buildings	4,748,812	580,540	-	-	5,329,352
Fixed equipment	1,022,076	80,496	3,335	-	1,099,237
Major moveable equipment	1,734,813	324,129	34,716	-	2,024,226
	7,650,064	1,001,846	38,051	-	8,613,859
Capital Assets, Net	$ 7,938,806	$ (930,266)	$ -	$ -	$ 7,008,540

Note 5: Professional Liability Coverage and Claims

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

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

Note 6: Long-term Obligations

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

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2021	$ 116,250	$ -	$ 21,750	$ 94,500	$ 22,750
USDA Hospital Refunding Revenue Bond Series 2014	3,589,631	-	148,192	3,441,439	153,193
Financed capital purchases	34,648	-	34,648	-	-
	$ 3,740,529	$ -	$ 204,590	$ 3,535,939	$ 175,943

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	$ 142,000	$ -	$ 142,000	$ -	$ -
Public Building Commission bonds payable - 2021	-	116,250	-	116,250	21,750
USDA Hospital Refunding Revenue Bond Series 2014	3,732,984	-	143,353	3,589,631	148,192
Financed capital purchases	58,323	-	23,675	34,648	20,472
	$ 3,933,307	$ 116,250	$ 309,028	$ 3,740,529	$ 190,414

Public Building Commission Bonds Payable – 2011

The Public Building Commission bonds payable - 2011 consist of Barber County, Kansas Public Building Commission Revenue Bonds Series 2011 in the original amount of $6,000,000 dated July 20, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments beginning September 1, 2012 through September 1, 2026. Semiannual interest only payments are due beginning March 1, 2012 through March 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the Barber County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The Hospital's portion of the bonds are secured by a pledge of the gross revenues of the Hospital. During 2021, the Series 2011 bonds were refunded through the Barber County, Kansas Public Building Commission Refunding Revenue Bonds Series 2021.

Public Building Commission Bonds Payable – 2021

The Public Building Commission bonds payable - 2021 consist of Barber County, Kansas Public Building Commission Refunding Revenue Bonds Series 2021 in the original amount of $2,325,000 dated June 10, 2021, which bear interest at 3.0%. The bonds are payable in annual installments beginning September 1, 2022 through September 1, 2026. Semiannual interest only payments are due beginning September 1, 2021 through September 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with Barber County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The Hospital's portion of the bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 25,586	$ 22,750	$ 2,836
2024	25,402	23,250	2,152
2025	25,456	24,000	1,456
2026	25,236	24,500	736
	$ 101,680	$ 94,500	$ 7,180

USDA Hospital Refunding Revenue Bond Series 2014

The USDA Hospital Refunding Revenue Bond Series 2014 bond payable was issued September 15, 2014, in the amount of $4,500,000 and bears interest at 3.375%. Principal and interest payments began September 15, 2015, and extend through September 15, 2039.

The Hospital's debt service requirements for the USDA bond as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 269,342	$ 153,193	$ 116,149
2024	269,342	158,364	110,978
2025	269,343	163,709	105,634
2026	269,342	169,234	100,108
2027	269,342	174,945	94,397
2028-2032	1,346,710	967,380	379,330
2033-2037	1,346,710	1,142,023	204,687
2038-2039	538,684	512,591	26,093
	$ 4,578,815	$ 3,441,439	$ 1,137,376

Financed Capital Purchases

Financed capital purchases are in the form of notes payable to vendors at interest rates from 3.75% to 6.00%. Principal and interest is payable monthly. The notes are secured by certain capital assets.

Note 7: Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a critical access hospital (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 Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 84% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ending December 31, 2022 and 2021, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $12,100 and $1,800 for 2022 and 2021, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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 $766,495 and $689,762 for the years ending December 31, 2022 and 2021, respectively. The Hospital recorded expenses of $607,870 and $412,587 for the years ending December 31, 2022 and 2021, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 10: Pension Plans

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by 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. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated $187,785 and $298,355 during 2022 and $202,701 and $312,540 during 2021, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled $91,728 and $117,788 during 2022 and 2021, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

Note 11: Management Agreement

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. The terms of the agreements vary from one to seven years and can be cancelled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2022 and 2021, were $883,983 and $881,052, respectively. Amounts due to GPHA at December 31, 2022 and 2021, were $25,533 and $17,836, respectively.

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

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

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

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

Provider Relief Fund

During the years ended December 31, 2022 and 2021, the Hospital received $1,044,325 and $500,666, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2022 and 2021, the Hospital recognized $1,119,638 and $1,393,589, respectively, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds

(*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of $0 and $75,313 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2022 and 2021, respectively.

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

Other COVID-19 Funding

During the years ended December 31, 2022 and 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital received and recognized $257,367 and $5,000 during 2022 and 2021, respectively, related to this grant. The revenue 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 $99,493 in a distribution from the Frontline Hospital Employee Retention Plan through the Strengthening People and Revitalizing Kansas (SPARK) 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 Hospital recognized $49,793 and $49,700 during 2022 and 2021, respectively, related to this grant. The revenue is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 13: Future Change in Accounting Principle

Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA) provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.