Independent Auditor's Report and Financial Statements

Russell Regional Hospital Board
d/b/a Russell Regional Hospital

July 31, 2021 and 2020

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Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Management's Discussion and Analysis
Years ended July 31, 2021 and 2020

Our discussion and analysis of the financial performance of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) provides a narrative overview of its financial activities for the years ended July 31, 2021 and 2020. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The net position of the County Hospital Board increased by $4,281,833 or 31.68 percent during the 2021 fiscal year and decreased by $401,601 or 2.89 percent during the 2020 fiscal year.

WCKA, a component unit of the County Hospital Board, reported an increase of $1,117,173 in its operating loss for the 2021 fiscal year and an increase of $131,640 in its operating loss for the 2020 fiscal year.

Using these financial statements

The financial statements of the County Hospital Board consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the County Hospital Board, including resources held by or for the benefit of the County Hospital Board, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

One of the most important questions asked about finances of the County Hospital Board is, "Is the County Hospital Board as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the resources of the County Hospital Board and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net position of the County Hospital Board and changes in them. Net position of the County Hospital Board - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the net position of the County Hospital Board are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the patient base of the County Hospital Board and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the County Hospital Board.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Assets, liabilities, and net position

The County Hospital Board's statements of net position as of the end of each of the last three years are summarized as follows:

	2021	2020	2019
Assets			
Current assets	$ 1,471,424	$ 1,230,612	$ 906,675
Assets limited as to use	3,148,760	2,936,734	2,912,404
Capital assets, net	5,450,516	6,166,323	6,801,637
Other assets	7,726,155	3,237,761	3,492,213
Total assets	$ 17,796,855	$ 13,571,430	$ 14,112,929
Liabilities			
Current liabilities	$ -	$ 56,408	$ 58,484
Long-term liabilities			137,822
Total liabilities	$ -	$ 56,408	$ 196,306
Net position	$ 17,796,855	$ 13,515,022	$ 13,916,623

Other assets consist primarily of the County Hospital Board's residual interest in WCKA's net position. The County Hospital Board's residual interest in WCKA's net position increased by $4,488,394, decreased by $254,452, and increased by $26,794 during the years ended July 31, 2021, 2020, and 2019, respectively.

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed $5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of $5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of $4,530,000. The proceeds of the 2012 bonds along with other funds were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred $425,470, $425,898, and $425,590 to the County during the 2021, 2020, and 2019 fiscal years, respectively, to pay principal and interest due on the bonds.

The net position of the County Hospital Board increased by $4,281,833 or 31.68 percent during the 2021 fiscal year and decreased by $401,601 or 2.89 percent during the 2020 fiscal year.

WCKA's statements of net position as of the end of each of the last three years are summarized as follows:

	2021	2020	2019
Assets			
Current assets	$ 11,757,119	$ 9,793,837	$ 4,454,424
Assets limited as to use	670,784	356,393	3,049
Capital assets, net	1,486,147	649,286	875,490
Total assets	$ 13,914,050	$ 10,799,516	$ 5,332,963
Liabilities			
Current liabilities	$ 5,947,073	$ 6,311,658	$ 1,336,823
Long-term obligations	240,822	1,250,097	503,927
Due to lessor	7,726,155	3,237,761	3,492,213
Total liabilities	$ 13,914,050	$ 10,799,516	$ 5,332,963
Net position	$ -	$ -	$ -

WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2032. At the end of the lease term, WCKA has agreed to return all of its net position to the County Hospital Board. Accordingly, WCKA's net position is presented as a liability ("due to lessor") in its financial statements. The residual interest in WCKA's unrestricted net position is presented as an asset in the financial statements of the County Hospital Board.

WCKA's net position increased by $4,488,394 or 138.63 percent during the 2021 fiscal year and decreased by $254,452 or 7.29 percent during the 2020 fiscal year.

Beginning in March 2020, WCKA, along with all health care providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for WCKA's services were significantly impacted. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and subsequent legislation has provided funding during these uncertain times. WCKA was approved for a Payment Protection Program (PPP) loan, and received several grants to prevent, prepare for, and respond to coronavirus. Total current assets and total liabilities increased by approximately $189,000 and $5,930,000 during each of the years ended July 31, 2021 and 2020, as a result of these funding mechanisms.

Operating results and changes in net position

The operating results and changes in net position for the County Hospital Board during each of the last three years are summarized as follows:

	2021	2020	2019
Operating revenues	$ 1,573	$ 1,705	$ 4,448
Operating expenses	900,256	1,091,337	1,074,765
Operating loss	(898,683)	(1,089,632)	(1,070,317)
Property taxes	574,308	629,054	608,092
Sales taxes	488,182	508,429	649,860
Other nonoperating revenue, net	27,349	57,022	62,266
Capital grants and contributions	79,103	173,876	197,116
Transfers to WCKA	(51,350)		(223,377)
Transfers to Russell County	(425,470)	(425,898)	(425,490)
Change in obligation of lessee to lessor	4,488,394	(254,452)	26,794
Change in net position	$ 4,281,833	$ (401,601)	$ (175,056)

Operating expenses consist primarily of depreciation on capital assets; $737,857, $876,304, and $902,846 during each of the years ended July 31, 2021, 2020, and 2019, respectively.

WCKA's operating results and changes in net position for each of the last three years are summarized as follows:

	2021	2020	2019
Operating revenues	$ 16,572,408	$ 16,958,431	$ 17,762,700
Operating expenses	18,035,398	17,304,248	17,976,877
Operating loss	(1,462,990)	(345,817)	(214,177)
SBA PPP loan forgiveness	1,859,877		
CARES Act grants	4,024,935		
Other nonoperating revenue and capital grants and contributions	15,222	91,365	(20,206)
Transfers from County Hospital Board	51,350		223,377
Change in net position	$ 4,488,394	$ (254,452)	$ (11,006)

The first, and most significant, component of the overall change in WCKA's net position is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. WCKA reported operating losses during the 2021, 2020, and 2019 fiscal years. The operating loss increased by $1,117,173 and increased by $131,640 during the 2021 and 2020 fiscal years, respectively.

Operating results are significantly impacted by participation in the 340(b) drug program. WCKA recognized $1,350,154 in revenue and incurred $1,024,083 in expenses related to the 340(b) drug program during the 2021 fiscal year. WCKA recognized $1,353,714 in revenue and incurred $775,800 in expenses related to the 340(b) drug program during the 2020 fiscal year. Without participation in the 340(b) drug program, WCKA would have sustained operating losses of $1,789,060 and $923,731 for the 2021 and 2020 fiscal years, respectively.

Gross and net patient service revenue for the past three years are analyzed as follows:

	2021	2020	2019
Inpatient services	$ 4,629,901	$ 5,371,404	$ 5,215,040
Outpatient services	17,029,431	15,063,607	15,062,634
Physician services	2,839,141	2,940,172	3,043,621
Gross patient service revenue	24,498,473	23,375,183	23,321,295
Contractual adjustments	(8,865,180)	(7,257,120)	(7,075,960)
Medicaid disproportionate share payments	267,851	268,855	273,448
Provision for bad debts	(896,983)	(883,694)	(825,941)
Charity care	(99,878)	(230,610)	(199,657)
Net patient service revenue	$ 14,904,283	$ 15,272,614	$ 15,493,185

WCKA did not raise its charge rates across the board during the 2021, 2020, or 2019 fiscal years. In the 2019 fiscal year, minor changes for charges occurred for the long-term care unit. Most of the overall changes in gross patient service revenue during the past three years are due to changes in inpatient and outpatient volume. Gross revenues from inpatient services decreased by 13.80 percent during the 2021 fiscal year, increased 3.0 percent during the 2020 fiscal year, and increased 1.2 percent during the 2019 fiscal year. Total patient days (acute and swing-bed combined), decreased by 16.32 percent during the fiscal year 2021, decreased by 1.6 percent during the fiscal year 2020, and decreased by 1.3 percent during fiscal year 2019. The change in inpatient revenues were greatly influenced by variations in the number of patient days. Gross revenues for outpatient services increased by 13.05 percent during the 2021 fiscal year, remained relatively unchanged during the 2020 fiscal year, and decreased by 4.2 percent during the 2019 fiscal year. These changes were primarily the result of changes in outpatient volume. Patient volumes were impacted in fiscal years 2021 and 2020 by the coronavirus pandemic.

WCKA has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 35.1, 29.9, and 29.2 percent during the 2021, 2020, and 2019 fiscal years, respectively. These values are comparable to those for similar critical access hospitals. As a critical access hospital, contractual adjustments for the Medicare program are much lower as a percentage of gross charges than they are for most other third-party payors. The contractual adjustment rate for cost reimbursed Medicare services generally rises when patient volume increases, and falls when drops in patient volume are experienced.

Another significant component of the overall change in WCKA's change in net position for the year ended July 31, 2021, was the recognition of the SBA PPP loan forgiveness of $1,859,877 and recognition of CARES Act grant revenue of $4,024,935.

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

Board of Trustees
Russell Regional Hospital Board
d/b/a Russell Regional Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board), a component unit of Russell County, Kansas, as of and for the years ended July 31, 2021 and 2020, and the related notes to the financial statements which collectively comprise the County Hospital Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital, as of July 31, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Noe Nelson : Johnson LLC

Topeka, Kansas
January 24, 2022

Financial Statements

Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Statements of Net Position
July 31,

Assets

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Current assets				
Cash	$ 1,383,007	$ 8,505,896	$ 1,126,549	$ 6,885,726
Patient accounts receivable, less allowance for uncollectible accounts of $881,646 in 2021 and $686,237 in 2020		2,135,289		1,720,468
Other receivables	5,945	446,998	20,187	465,215
Estimated third-party payor settlements		240,000		301,663
Sales tax receivable	80,000		80,000	
Inventories		296,332		283,704
Prepaid expenses	2,472	132,604	3,876	137,061
Total current assets	1,471,424	11,757,119	1,230,612	9,793,837
Assets limited as to use				
Internally designated				
For capital assets	2,442,731		2,230,828	
For employee benefits		670,784		356,393
By contributors for capital assets	409,108		408,985	
Principal of permanent endowments	296,921		296,921	
Total assets limited as to use	3,148,760	670,784	2,936,734	356,393
Capital assets, net	5,450,516	1,486,147	6,166,323	649,286
Other assets				
Due from lessee	7,726,155		3,237,761	
Total assets	$ 17,796,855	$ 13,914,050	$ 13,571,430	$ 10,799,516

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Current liabilities				
Current portion of notes payable to banks	$ -	$ 21,576	$ 46,607	$ 28,745
Current portion of capital lease obligations		117,692		138,973
Current portion of SBA PPP loan				971,539
Accounts payable		261,834	9,801	198,754
Estimated third-party payor settlements		62,942		45,581
Accrued salaries and benefits		770,076		516,369
Accrued compensated absences		318,202		336,699
Accrued interest		498		602
Medicare accelerated payments payable		4,155,722		
Unearned CARES Act revenue		238,531		4,074,396
Total current liabilities	-	5,947,073	56,408	6,311,658
Notes payable to banks, less current portion				2,477
Capital lease obligations, less current portion		240,822		359,282
SBA PPP loan payable, less current portion				888,338
Due to lessor		7,726,155		3,237,761
Total liabilities	-	13,914,050	56,408	10,799,516
Net position				
Invested in capital assets net of related debt	5,450,516		6,119,716	
Restricted				
Expendable for capital acquisitions	409,108		408,985	
Nonexpendable permanent endowments	296,921		296,921	
Unrestricted	11,640,310		6,689,400	
Total net position	17,796,855	-	13,515,022	-
Total liabilities and net position	$ 17,796,855	$ 13,914,050	$ 13,571,430	$ 10,799,516

Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Year ended July 31,

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Operating revenues				
Net patient service revenue	$ -	$ 14,904,283	$ -	$ 15,272,614
Other revenue	1,573	1,668,125	1,705	1,685,817
Total operating revenues	1,573	16,572,408	1,705	16,958,431
Operating expenses				
Salaries and wages		9,824,296		9,677,263
Employee benefits		1,689,080		1,683,768
Purchased services, supplies, and other	162,399	6,304,114	215,033	5,731,429
Depreciation and amortization	737,857	217,908	876,304	211,788
Total operating expenses	900,256	18,035,398	1,091,337	17,304,248
Operating loss	(898,683)	(1,462,990)	(1,089,632)	(345,817)
Nonoperating revenues (expenses)				
Property taxes	574,308		629,054	
Sales taxes	488,182		508,429	
Investment income	8,566		31,972	
Interest expense	(382)	(20,882)	(5,065)	(29,770)
Noncapital grants and contributions	19,165	15,548	22,701	138,651
SBA PPP loan forgiveness		1,859,877		
Noncapital CARES Act grants		3,031,002		
Gain (loss) on disposal of capital assets		556	7,414	(17,516)
Total nonoperating revenues (expenses)	1,089,839	4,886,101	1,194,505	91,365
Excess of revenues over (under) expenses before capital grants and contributions and transfers	191,156	3,423,111	104,873	(254,452)
Capital grants and contributions	79,103	20,000	173,876	
CARES Act grants for capital purchases		993,933		
Transfers				
Between Hospital Board and component unit	(51,350)	51,350		
To Russell County	(425,470)		(425,898)	
Change in net position	(206,561)	4,488,394	(147,149)	(254,452)
Net position at beginning of year	13,515,022		13,916,623	
Change in obligation of lessee to lessor	4,488,394	(4,488,394)	(254,452)	254,452
Net position at end of year	$ 17,796,855	$ -	$ 13,515,022	$ -

The accompanying notes are an integral part of these statements.

Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Statements of Cash Flows
Year ended July 31,

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	$ -	$ 18,724,208	$ -	$ 15,071,202
Payments to or on behalf of employees		(11,278,166)		(11,391,127)
Payments for supplies and services	(170,796)	(6,249,205)	(208,642)	(5,744,825)
Other receipts and payments	1,573	1,686,342	1,705	1,754,166
Net cash provided (used) by operating activities	(169,223)	2,883,179	(206,937)	(310,584)
Cash flows from noncapital financing activities				
Tax levies	1,062,490		1,097,483	
Noncapital grants and contributions	19,165	15,548	22,701	138,651
CARES Act grants received		189,070		4,074,396
Proceeds from notes payable to banks		104,714		1,984,808
Payments on notes payable to banks		(111,518)		(117,066)
Interest paid		(3,062)		(3,350)
Transfers	(51,350)	51,350		
Net cash provided by noncapital financing activities	1,030,305	246,102	1,120,184	6,077,439
Cash flows from capital and related financing activities				
Acquisition of capital assets	(22,050)	(1,054,769)	(240,990)	(3,100)
Capital grants and contributions	93,345	20,000	179,771	
Proceeds from sale of capital assets		556		
Payments on notes payable to banks	(46,607)	(2,842)	(149,699)	(2,703)
Interest paid	(382)	(17,924)	(5,065)	(26,520)
Insurance proceeds			7,414	
Payments on capital lease obligations		(139,741)		(153,400)
Transfers to Russell County	(425,470)		(425,898)	
Net cash used by capital and related financing activities	(401,164)	(1,194,720)	(634,467)	(185,723)
Cash flows from investing activities				
Interest income received	8,566		31,972	
Net cash provided by investing activities	8,566	-	31,972	-
Net change in cash and cash equivalents	468,484	1,934,561	310,752	5,581,132
Cash and cash equivalents at beginning of year	4,063,283	7,242,119	3,752,531	1,660,987
Cash and cash equivalents at end of year	$ 4,531,767	$ 9,176,680	$ 4,063,283	$ 7,242,119

Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Statements of Cash Flows - Continued
Year ended July 31,

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Reconciliation of cash and cash equivalents				
Cash	$ 1,383,007	$ 8,505,896	$ 1,126,549	$ 6,885,726
Cash included in assets limited as to use				
Internally designated	2,442,731	670,784	2,230,828	356,393
By contributors	409,108		408,985	
Principal of permanent endowments	296,921		296,921	
Total cash and cash equivalents	$ 4,531,767	$ 9,176,680	$ 4,063,283	$ 7,242,119
Reconciliation of operating loss to net cash provided (used) by operating activities				
Operating loss	$ (898,683)	$ (1,462,990)	$ (1,089,632)	$ (345,817)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	737,857	217,908	876,304	211,788
Provision for bad debts		896,983		883,694
Changes in				
Patient accounts receivable		(1,311,804)		(935,966)
Estimated third-party payor settlements		79,024		(149,140)
Inventories and other current assets	1,404	10,046	(3,410)	72,310
Accounts payable and accrued expenses	(9,801)	298,290	9,801	(47,453)
Medicare accelerated payments		4,155,722		
Net cash provided (used) by operating activities	$ (169,223)	$ 2,883,179	$ (206,937)	$ (310,584)

The accompanying notes are an integral part of these statements.

Russell Regional Hospital Board
d/b/a Russell Regional Hospital
Notes to Financial Statements
July 31, 2021 and 2020

Note A - Description of Reporting Entity and Summary of Accounting Policies

1. Reporting entity

The Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) is a county hospital located in Russell, Kansas. It is a component unit of Russell County, Kansas (the County). The County Hospital Board consists of seven members elected by residents of the County. It annually levies a tax to support its activities. The County Hospital Board can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County.

For financial reporting purposes, the County Hospital Board has considered all potential components units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County Hospital Board are such that the exclusion would cause the County Hospital Board's financial situation to be misleading or incomplete. The discretely presented component unit discussed in Note A2 is included in the County Hospital Board's reporting entity because of the significance of its relationship with the County Hospital Board.

2. Discretely presented component unit

West Central Kansas Association, Inc. d/b/a Russell Regional Hospital (WCKA), is a not-for-profit membership corporation organized to operate an acute care hospital and nursing facility located in Russell, Kansas. WCKA is a legally separate component unit of the County Hospital Board. WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2032. At the end of the lease term, WCKA has agreed to return all of its net position to the County Hospital Board, including any property or equipment acquired after inception of the lease. Accordingly, WCKA has recorded an obligation for the estimated liability due to the County Hospital Board at termination of the lease agreement.

3. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Basis of accounting

The County Hospital Board uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

The County Hospital Board and WCKA considers all cash and invested cash to be cash equivalents.

6. Allowance for uncollectible accounts

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, WCKA analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to

Note A - Description of Reporting Entity and Summary of Accounting Policies - Continued

patients who have third-party coverage, WCKA analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), WCKA records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

7. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the County Hospital Board for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by contributors for a particular purpose; assets required by contributors to be retained in perpetuity, and assets set aside by WCKA for employee benefits, over which WCKA retains control and may, at WCKA's discretion subsequently use for other purposes. Amounts that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

10. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

11. Grants and contributions

From time to time, the County Hospital Board and WCKA receive grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Note A - Description of Reporting Entity and Summary of Accounting Policies - Continued

12. Net position

The net position of the County Hospital Board and WCKA are classified into four components. Net position invested in capital assets net of related debt consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the County Hospital Board and WCKA. Restricted nonexpendable net position equals the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definitions of the other three components of net position.

13. Operating revenues and expenses

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the principal activity of the County Hospital Board and WCKA. Nonexchange revenues, including tax levies and noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and the provision for bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

15. Charity care

WCKA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because WCKA does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

16. Income taxes

The County Hospital Board is exempt from federal taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

WCKA is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. WCKA's management is not aware of any uncertainties in income tax positions. The years ended July 31, 2021, 2020, 2019, and 2018, remain subject to examination by both federal and state taxing authorities.

17. Subsequent events

The County Hospital Board has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

18. Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation.

Note B - Net Patient Service Revenue

WCKA has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - WCKA is a critical access hospital for purposes of the Medicare program. Hospital and rural health clinic (RHC) services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies. Physician services, other than RHC services, rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. WCKA is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by WCKA and audits or reviews thereof by the Medicare administrative contractor. WCKA's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. WCKA's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through July 31, 2019.

Medicaid - Hospital services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. Physician services, other than RHC services, rendered to Medicaid beneficiaries are paid on a prospectively determined fee schedule. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

A summary of gross and net patient service revenue follows:

	2021	2020
Gross patient service revenue	$ 24,498,473	$ 23,375,183
Contractual adjustments	(8,865,180)	(7,257,120)
Medicaid disproportionate share payments	267,851	268,855
Charity care	(99,878)	(230,610)
Patient service revenue	15,801,266	16,156,308
Provision for bad debts	(896,983)	(883,694)
Net patient service revenue	$ 14,904,283	$ 15,272,614

Note B - Net Patient Service Revenue - Continued

Patient service revenue, net of contractual adjustments and charity care (but before the provision for bad debts) by major payor sources is as follows:

	2021	2020
Medicare	$ 8,937,578	$ 8,628,601
Medicaid	1,365,116	1,668,054
Blue Cross	2,884,806	2,728,106
Other third-party payors	1,871,473	1,608,045
Patients	742,293	1,523,502
Patient service revenue	$ 15,801,266	$ 16,156,308

Revenue from the Medicare and Medicaid programs accounted for approximately 57 percent and 9 percent, respectively, of WCKA's net patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2021, and 53 percent and 10 percent, respectively, of WCKA's patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

WCKA is dedicated to providing both services and leadership in caring for the needy and accepts all patients regardless of the ability to pay. WCKA provides such care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since WCKA does not attempt to collect amounts initially determined to qualify as charity care, such charges are not included in net patient service revenue. The costs incurred in providing these services of approximately $67,000 and $155,000 during the years ended July 31, 2021 and 2020, are included in WCKA's operating expenses and are estimated using WCKA's overall cost-to-charge ratio. In addition, WCKA provides care for medically indigent patients covered under the Medicaid welfare program at rates substantially below standard charges.

Note C - Allowance for Uncollectible Accounts

WCKA's allowance for uncollectible accounts on amounts due from patients was 78 percent and 82 percent of self-pay accounts receivable as of July 31, 2021 and 2020, respectively. WCKA's net bad debt write-offs were $701,573 and $865,045 for the years ended July 31, 2021 and 2020, respectively. WCKA did not change its charity care or uninsured discount policies during the years ended July 31, 2021 and 2020. WCKA does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

Note D - Deposits with Financial Institutions

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

Kansas statutes authorize the County Hospital Board, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the County Hospital Board.

Note D - Deposits with Financial Institutions - Continued

At July 31, 2021, the carrying amounts of bank deposits, including certificates of deposit, were $4,531,767 for the County Hospital Board and $9,175,680 for WCKA. The bank balances for the two entities were $4,594,249 and $9,549,066, respectively. Of the County Hospital Board's bank balances, $750,000 was covered by federal depository insurance, $3,844,249 was covered by collateral held by a third-party bank but not registered in the name of the County Hospital Board. Of WCKA's bank balances, $532,558 was covered by federal depository insurance, $9,016,508 was covered by collateral held by a third-party bank but not registered in the name of WCKA.

Bank deposits are included in the financial statements under the following categories:

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Unrestricted funds				
Cash and invested cash	$ 1,383,007	$ 8,504,896	$ 1,126,549	$ 6,884,726
Assets limited as to use				
Internally designated				
For capital assets	2,442,731		2,230,828	
For employee benefits		670,784		356,393
By contributors for capital assets	409,108		408,985	
Principal of permanent endowments	296,921		296,921	
Total bank deposits	$ 4,531,767	$ 9,175,680	$ 4,063,283	$ 7,241,119

Note E - Assets Limited as to Use

The composition of assets limited as to use is as follows:

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Internally designated				
For capital assets				
Cash	$ 2,442,731	$ -	$ 2,230,828	$ -
For employee benefits				
Cash	$ -	$ 670,784	$ -	$ 356,393
By contributors for capital assets				
Cash and certificates of deposit	$ 409,108	$ -	$ 408,985	$ -
Principal of permanent endowments				
Certificates of deposit	$ 296,921	$ -	$ 296,921	$ -

Note F - Capital Assets

Capital asset additions, retirements, and balances for the County Hospital Board are as follows:

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 191,496	$ -	$ -	$ 191,496
Buildings and fixed equipment	14,771,988			14,771,988
Major movable equipment	3,528,278	22,050		3,550,328
Total capital assets being depreciated	18,491,762	22,050	-	18,513,812
Less accumulated depreciation and amortization				
Land improvements	25,623	10,474		36,097
Buildings and fixed equipment	9,679,074	548,541		10,227,615
Major movable equipment	2,621,080	178,842		2,799,922
Total accumulated depreciation and amortization	12,325,777	737,857	-	13,063,634
Total capital assets being depreciated, net	6,165,985	(715,807)	-	5,450,178
Land	338			338
Total capital assets not being depreciated	338	-	-	338
Capital assets, net	$ 6,166,323	$ (715,807)	$ -	$ 5,450,516

Note F - Capital Assets - Continued

	2020			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 191,496	$ -	$ -	$ 191,496
Buildings and fixed equipment	14,723,836	48,152		14,771,988
Major movable equipment	3,294,772	233,506		3,528,278
Total capital assets being depreciated	18,210,104	281,658	-	18,491,762
Less accumulated depreciation and amortization				
Land improvements	15,149	10,474		25,623
Buildings and fixed equipment	9,005,237	673,837		9,679,074
Major movable equipment	2,429,087	191,993		2,621,080
Total accumulated depreciation and amortization	11,449,473	876,304	-	12,325,777
Total capital assets being depreciated, net	6,760,631	(594,646)	-	6,165,985
Land	338			338
Construction in progress	40,668	(40,668)		
Total capital assets not being depreciated	41,006	(40,668)	-	338
Capital assets, net	$ 6,801,637	$ (635,314)	$ -	$ 6,166,323

At July 31, 2021, the County Hospital Board's outstanding commitments for capital assets were approximately $130,000.

Note F - Capital Assets - Continued

Capital asset additions, retirements, and balances for WCKA are as follows:

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 237,874	$ -	$ -	$ 237,874
Fixed equipment	991,212	7,283		998,495
Major movable equipment	3,673,087	1,021,726		4,694,813
Total capital assets being depreciated	4,902,173	1,029,009	-	5,931,182
Less accumulated depreciation and amortization				
Land improvements	204,049	5,834		209,883
Fixed equipment	950,775	6,161		956,936
Major movable equipment	3,098,063	205,913		3,303,976
Total accumulated depreciation and amortization	4,252,887	217,908	-	4,470,795
Total capital assets being depreciated, net	649,286	811,101	-	1,460,387
Construction in progress	-	25,760	-	25,760
Total capital assets not being depreciated	-	25,760	-	25,760
Capital assets, net	$ 649,286	$ 836,861	$ -	$ 1,486,147

Note F - Capital Assets - Continued

	2020			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 237,874	$ -	$ -	$ 237,874
Fixed equipment	991,212			991,212
Major movable equipment	3,722,535	3,100	52,548	3,673,087
Total capital assets being depreciated	4,951,621	3,100	52,548	4,902,173
Less accumulated depreciation and amortization				
Land improvements	189,533	14,516		204,049
Fixed equipment	942,790	7,985		950,775
Major movable equipment	2,943,808	189,287	35,032	3,098,063
Total accumulated depreciation and amortization	4,076,131	211,788	35,032	4,252,887
Total capital assets being depreciated, net	875,490	(208,688)	17,516	649,286
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets, net	$ 875,490	$ (208,688)	$ 17,516	$ 649,286

At July 31, 2021, WCKA's outstanding commitments for capital assets were approximately $274,000.

Note F - Capital Assets - Continued

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed $5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of $5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of $4,530,000. The proceeds of the 2012 bonds along with other funds, were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred $425,470 and $425,898 to the County during 2021 and 2020, respectively, to pay principal and interest due on the bonds.

Note G - Employee Health Insurance

WCKA sponsors a self-insured employee health insurance plan. WCKA reinsures a portion of its risk under that plan. Prior to January 1, 2020, the reinsurance arrangement generally covers claims totaling over $40,000 for each covered individual on an annual basis for claims incurred. Effective January 1, 2020, the reinsurance arrangement generally covers claims totaling over $50,000 for each covered individual on an annual basis for claims incurred. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. WCKA has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement:

	2021	2020
Estimated net health insurance claims payable at beginning of year	$ 78,252	$ 110,252
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	896,065	919,376
Participant contributions	485,608	508,634
Payments made for claims and related expenses	(1,274,925)	(1,460,010)
Estimated net health insurance claims payable at end of year	$ 185,000	$ 78,252
Estimated health insurance claims payable at end of year (included in accrued salaries, wages, and benefits)	$ 185,000	$ 95,000
Reinsurance proceeds recoverable (included in other receivables)		(16,748)
	$ 185,000	$ 78,252

Note H - Medicare Accelerated Payments Payable

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In September 2020, WCKA requested and received advances under this program in response to the coronavirus pandemic totaling $4,155,722. WCKA recorded these amounts as current liabilities. In September 2021, prior to Medicare beginning recoupment, WCKA repaid the full amount of the Medicare accelerated payments they had received.

Note I - Unearned CARES Act Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act and subsequent legislation. WCKA received the United States Department of Health and Human Services (HHS) provider relief funds to be used to prevent, prepare for, and respond to coronavirus and to reimburse WCKA for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus (COVID-19). WCKA also received HHS rural health clinic and HHS skilled nursing testing funds to be used to support coronavirus testing and related expenses in the rural health clinic and skilled nursing facility. As a condition to receiving these distributions, WCKA must agree to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned revenues until such time the eligibility requirements have been met.

WCKA has determined that the eligibility requirements for lost revenues and allowable expenditures have been met for $4,024,935 of HHS provider relief funds and HHS skilled nursing testing funds for the year ended July 31, 2021. These amounts have, therefore, been recognized as nonoperating revenues, and grants used for capital purchases in the financial statements during the year ended July 31, 2021. The terms and conditions of the programs are complex and are subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

The following table provides information about significant changes in unearned CARES Act revenue for the year ended July 31:

	2021	2020
Unearned CARES Act revenue at beginning of year	$ 4,074,396	$ -
HHS Provider relief funds received		3,917,435
HHS Rural health clinic testing funds received	100,000	49,461
HHS Skilled nursing facility funds received	89,070	107,500
Noncapital CARES Act grants recognized	(3,031,002)	
Capital related CARES Act grants recognized	(993,933)	
Uneared CARES Act revenue at end of year	$ 238,531	$ 4,074,396

Note J - Notes Payable to Banks and SBA PPP Loan Payable

The County Hospital Board's note payable to bank is summarized as follows:

	2021	2020
3.50% note payable to UMB Bank, original amount of $399,597, payable in quarterly installments of $16,056 including interest, through October 31, 2022, additional principal payments made in 2020, collateralized by building improvements	$ -	$ 46,607
Less current portion of note payable to bank		46,607
Note payable to bank, less current portion	$ -	$ -

The following is a summary of changes in the County Hospital Board's note payable to bank:

	2021	2020
Outstanding at beginning of year	$ 46,607	$ 196,306
Principal payments	(46,607)	(149,699)
Outstanding at end of year	$ -	$ 46,607

WCKA's notes payable to bank are summarized as follows:

	2021	2020
5.50% note payable to Fidelity State Bank & Trust Company, payable in monthly installments, including interest, through October 1, 2020, collateralized by refundable unearned malpractice insurance premiums	$ -	$ 25,903
5.25% note payable to Fidelity State Bank & Trust Company, payable in monthly installments, including interest, through September 1, 2021, collateralized by refundable unearned malpractice insurance premiums	19,099	
5.00% note payable to Southwind Bank, payable in monthly installments, including interest, through May 14, 2022, collateralized by a vehicle that is fully amortized	2,477	5,319
	21,576	31,222
Less current portion of notes payable to bank	21,576	28,745
Notes payable to bank, less current portion	$ -	$ 2,477

Note J - Notes Payable to Banks and SBA PPP Loan Payable - Continued

The SBA PPP loan payable is summarized as follows:

	2021	2020
Small Business Administration (SBA) Paycheck Protection Program Loan dated April 6, 2020, 24-month term, current rate 1.00%, subject to SBA loan forgiveness application, uncollatoralized forgiven by the SBA in January 2021	$ -	$ 1,859,877
Less current portion of SBA PPP loan payable		971,539
SBA PPP loan payable, excluding current portion	$ -	$ 888,338

On April 6, 2020, WCKA was granted a $1,859,877 loan under the Payment Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. WCKA received forgiveness of the entire loan amount plus accrued interest of $15,083 on January 7, 2021, and has recognized this forgiveness as nonoperating revenues in the statement of revenue.

The following is a summary of changes in WCKA's notes payable to bank and SBA PPP loan payable:

	2021		2020	
	Note payable	SBA PPP loan payable	Note payable	SBA PPP loan payable
Outstanding at beginning of year	$ 31,222	$ 1,859,877	$ 26,060	$ -
Obligations incurred	104,714		124,931	1,859,877
Loan forgiveness		(1,859,877)		
Principal payments	(114,360)		(119,769)	
Outstanding at end of year	$ 21,576	$ -	$ 31,222	$ 1,859,877

Scheduled payments on WCKA's notes payable to banks are as follows:

	Principal	Interest	Total
2021	$ 21,576	$ 232	$ 21,808

Note K - Capital Lease Obligations

Capital lease obligations for WCKA are summarized as follows:

	2021	2020
Capital lease obligations, imputed interest rates from 3.2% to 7.7%, collateralized by leased equipment with an amortized cost of $343,397	$ 358,514	$ 498,255
Less current portion of capital lease obligations	117,692	138,973
Capital lease obligations, less current portion	$ 240,822	$ 359,282

Scheduled payments on WCKA's capital lease obligations are as follows:

	Principal	Interest	Total
2022	$ 117,692	$ 12,581	$ 130,273
2023	118,222	7,091	125,313
2024	59,066	2,935	62,001
2025	44,540	1,390	45,930
2026	18,994	143	19,137
Total minimum lease payments	$ 358,514	$ 24,140	$ 382,654

The following is a summary of changes in WCKA's capital lease obligations:

	2021	2020
Outstanding at beginning of year	$ 498,255	$ 651,655
Principal payments	(139,741)	(153,400)
Outstanding at end of year	$ 358,514	$ 498,255

Note L - Interest Expense

Total interest costs on notes payable to banks and capital lease obligations are as follows:

	2021		2020	
	Hospital Board	Component unit	Hospital Board	Component unit
Total interest incurred	$ 382	$ 20,882	$ 5,065	$ 29,770
Interest expense	$ 382	$ 20,882	$ 5,065	$ 29,770

Note M - Other Support

WCKA is dependent on the County Hospital Board for continuing operations. The support consists of either loans (in the form of noninterest-bearing notes) or direct equity transfers. The County Hospital Board directly transferred $51,350 to WCKA during the year ended July 31, 2021. No direct transfers were made to WCKA during the year ended July 31, 2020.

Note N - Operating Leases

WCKA leases property and equipment from the County Hospital Board under a lease agreement expiring on July 31, 2032. Under the terms of the agreement, WCKA is to make payments for leases and other obligations previously incurred by the County Hospital Board. There were no further minimum lease payments due under this agreement as of July 31, 2003.

WCKA also leases equipment under various operating leases. Total rental expense for all operating leases for the years ended July 31, 2021 and 2020, was $11,205 and $8,320, respectively.

Note O - Pension Plan

WCKA sponsors the Russell Regional Hospital 401(k) Plan (the Plan) a defined contribution plan. The Plan covers substantially all full-time employees who have completed one year of service and are at least 21 years of age. WCKA's contributions to the Plan are 50 percent of each participant's elective deferral, not to exceed 4 percent of the participant's compensation. Participants may defer up to 24 percent of their annual gross wages. Participant contributions are 100 percent vested at all times and employer contributions are 100 percent vested after three years of service. Employer contributions provisions, including contribution requirements, may be amended by WCKA. Contributions to the Plan for the year ended July 31, 2021, were approximately $331,916, which consisted of $74,691 from WCKA and $257,225 from employees. Contributions to the Plan for the year ended July 31, 2020, were approximately $451,103, which consisted of $104,433 from WCKA and $346,670 from employees.

Note P - Concentration of Credit Risk

WCKA grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	2021	2020
Medicare	38.2 %	37.3 %
Medicaid	5.8	8.2
Blue Cross	13.1	10.2
Other insurance	16.1	18.0
Patients	26.8	26.3
	100.0 %	100.0 %

Note Q - Risk Management

For the year ended July 31, 2021, WCKA was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. WCKA is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against it for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of $1,000,000 per occurrence with an aggregate amount in any policy year of $1,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through August 1, 2022. WCKA intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under WCKA's incident reporting system has been made because the amount is not reasonably estimable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to July 31, 2021, will have no material effect on the financial statements of WCKA or the County Hospital Board.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, the County Hospital Board and WCKA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County Hospital Board and WCKA purchase commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note R - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses, and suspended elective procedures at health care facilities. While many restrictions have been eased and WCKA is now able to perform elective procedures, the pandemic continues to impact WCKA's operations. The impact on future operations is driven by numerous factors, which are beyond management's control and management's ability to forecast the total impact on operations. WCKA is unable to estimate the length of time or financial impact the pandemic will have on operations.

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note I pertaining to COVID-19 grant funds, Note H regarding Medicare accelerated payments, and Note J regarding the SBA PPP loan. In addition, WCKA received additional funds in November 2021 totaling $595,992 as rural payments under the American Rescue Plan Act.

Note S - Subsequent Events

In September 2021, WCKA entered into a contract to purchase radiology equipment totaling approximately $276,000.

In October 2021, the County Hospital Board entered into multiple contracts for renovation to the existing building for approximately $200,000.