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

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021



Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Kiowa County Memorial Hospital
Greensburg, Kansas

Opinion

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of KCMH 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 KCMH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KCMH'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 KCMH'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 KCMH's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

FORVIS, LLP

Wichita, Kansas
June 13, 2023

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash	$ 2,736,358	$ 1,900,860
Short-term certificates of deposit	1,591,495	2,781,398
Patient accounts receivable, net of allowance; 2022 – $247,512, 2021 – $253,868	1,163,411	1,429,153
Intergovernmental receivable	1,047,060	1,046,768
Estimated amounts due from third-party payers	235,000	-
Supplies	187,453	207,306
Prepaid expenses and other	341,449	420,576
Total current assets	7,302,226	7,786,061
Noncurrent Cash and Investments		
Funds held by County for debt service	115,630	115,630
Cash restricted for specific operating activities	147	324,306
Total noncurrent cash	115,777	439,936
Capital Assets, Net	7,321,731	8,087,843
Other Assets		
Other noncurrent assets	1,534	1,599
Total assets	$ 14,741,268	$ 16,315,439

See Notes to Financial Statements

	2022	2021
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 40,615	$ 39,693
Accounts payable	242,727	189,397
Accrued expenses	574,398	644,781
Estimated amounts due to third-party payers	-	685,000
Unearned revenue	-	177,187
Total current liabilities	857,740	1,736,058
Long-term Debt	1,358,624	1,413,677
Total liabilities	2,216,364	3,149,735
Deferred Inflows of Resources		
Intergovernmental property taxes	1,047,060	1,046,768
Net Position		
Net investment in capital assets	5,922,492	6,634,473
Restricted - expendable for		
Debt service	115,630	115,630
Specific operating activities	-	985,387
Unrestricted	5,439,722	4,383,446
Total net position	11,477,844	12,118,936
Total liabilities, deferred inflows of resources and net position	$ 14,741,268	$ 16,315,439

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, 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 – $101,850, 2021 – $303,822	$ 7,478,642	$ 6,566,638
Other	891,680	744,252
Total operating revenues	8,370,322	7,310,890
Operating Expenses		
Salaries and wages	4,217,700	3,931,719
Supplies and other	5,206,848	4,704,145
Depreciation and amortization	1,201,169	1,184,352
Total operating expenses	10,625,717	9,820,216
Operating Loss	(2,255,395)	(2,509,326)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Kiowa County	1,194,866	1,187,543
Noncapital grants and gifts	272,687	85,747
Gain on sale of capital assets	8,638	-
Interest income	18,783	11,943
Interest expense	(57,858)	(60,300)
CARES Act funding	177,187	931,002
Total nonoperating revenues	1,614,303	2,155,935
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants, Gifts and Contributions	(641,092)	(353,391)
Special Item		
Termination of lease agreement (*Notes 1* and *12*)	-	9,874,784
Increase (Decrease) in Net Position	(641,092)	9,521,393
Net Position, Beginning of Year	12,118,936	2,597,543
Net Position, End of Year	$ 11,477,844	$ 12,118,936

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, 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	$ 6,824,384	$ 7,387,088
Payments to suppliers and contractors	(5,054,473)	(4,855,346)
Payments to and on behalf of employees	(4,288,083)	(3,700,383)
Other receipts, net	714,493	(1,626,940)
Net cash used in operating activities	(1,803,679)	(2,795,581)
Cash Flows From Noncapital Financing Activities		
Property taxes supporting operations	1,194,866	1,187,543
Noncapital grants and gifts	272,687	85,747
Provider Relief Funds (*CARES Act*)	177,187	931,002
Net cash provided by noncapital financing activities	1,644,740	2,204,292
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(54,131)	(54,532)
Interest paid on long-term debt	(57,858)	(60,300)
Purchase of capital assets	(435,057)	(20,750)
Cash received on termination of lease agreement	-	3,193,421
Net cash provided by capital and related financing activities	(547,046)	3,057,839
Cash Flows From Investing Activities		
Interest income received	18,783	11,943
Purchase of certificates of deposits	-	(692,521)
Proceeds from disposition of certificates of deposits	1,189,903	-
Proceeds from sale of capital assets	8,638	-
Net cash provided by (used in) investing activities	1,217,324	(680,578)
Increase in Cash	511,339	1,785,972
Cash, Beginning of Year	2,340,796	554,824
Cash, End of Year	$ 2,852,135	$ 2,340,796

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

	2022	2021
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 2,736,358	$ 1,900,860
Cash in noncurrent cash	115,777	439,936
Total cash	$ 2,852,135	$ 2,340,796
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (2,255,395)	$ (2,509,326)
Depreciation and amortization	1,201,169	1,184,352
Provision for uncollectible accounts	101,850	303,822
Other	65	66
Changes in operating assets and liabilities		
Patient accounts receivable, net	163,892	(859,790)
Estimated amounts due from and to third-party payers	(920,000)	1,376,418
Accounts payable and accrued expenses	(17,053)	265,948
Supplies and prepaid expenses and other	98,980	(185,879)
Unearned revenue	(177,187)	(2,371,192)
Net cash used in operating activities	$ (1,803,679)	$ (2,795,581)
Noncash Investing, Capital and Financing Activities		
As discussed in Notes 1 and 12, effective January 1, 2021, the Hospital terminated its lease agreement with Great Plains of Kiowa County, Inc. In conjunction with the termination of the lease agreement, assets, liabilities and net position were transferred as follows:		
Assets	$ -	$ 14,452,618
Liabilities	-	(4,577,834)
Net position	$ -	$ 9,874,784

Kiowa County Memorial Hospital
A Component Unit of Kiowa County, 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

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

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

Basis of Accounting and Presentation

The financial statements of KCMH have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. KCMH first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2022 and 2021.

Certificates of Deposit

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

Noncurrent Cash and Investments

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

Property Taxes and Noncapital Contributions – Kiowa County

KCMH and GPKC received approximately 12% and 13% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2022 and 2021, respectively. One hundred percent of these funds were used to support operations.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; workers' compensation; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 20 years
Buildings	5 – 30 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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.

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.

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.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Board of Trustees' deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At December 31, 2022 and 2021, respectively, $3,866,250 and $4,526,170 of the Hospital's bank balances of $4,327,853 and $4,682,258 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by pledging financial institution's trust department or agent in the Hospital's name	$ 3,866,250	$ 4,526,170

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets at December 31, 2022 and 2021, as follows:

	2022	2021
Carrying value		
Deposits	$ 4,327,853	$ 4,682,258
Included in the following balance sheet captions		
Cash	$ 2,736,358	$ 1,900,860
Short-term certificates of deposit	1,591,495	2,781,398
	$ 4,327,853	$ 4,682,258

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	$ 685,178	$ 770,373
Medicaid	31,168	167,545
Blue Cross	105,481	143,393
Other third-party payers	186,615	193,208
Self-pay	402,481	408,502
	1,410,923	1,683,021
Less allowance for uncollectible accounts	(247,512)	(253,868)
Patient accounts receivable, net	$ 1,163,411	$ 1,429,153

Note 4: Net Patient Service Revenue

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

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

Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The clinics are recognized as rural health clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement are determined in a similar manner as for hospital services.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment

Approximately 84% and 80% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended 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, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The composition of net patient service revenue by primary payor for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Medicare	$ 5,545,453	$ 4,631,618
Medicaid	378,737	543,032
Blue Cross	796,656	798,241
Other third-party payers	819,259	554,453
Self-pay	40,387	343,116
	7,580,492	6,870,460
Less provision for uncollectible accounts	(101,850)	(303,822)
Net patient service revenue	$ 7,478,642	$ 6,566,638

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2022 and 2021, was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 127,740	$ -	$ -	$ -	$ 127,740
Buildings and improvements	20,529,590	-	-	-	20,529,590
Fixed equipment	846,790	166,381	-	-	1,013,171
Major moveable equipment	3,206,100	228,676	(53,788)	-	3,380,988
Construction in progress	-	40,000	-	-	40,000
	24,710,220	435,057	(53,788)	-	25,091,489
Less accumulated depreciation					
Buildings and improvements	13,401,633	951,126	-	-	14,352,759
Fixed equipment	657,833	46,776	-	-	704,609
Major moveable equipment	2,562,911	203,267	(53,788)	-	2,712,390
	16,622,377	1,201,169	(53,788)	-	17,769,758
Capital Assets, Net	$ 8,087,843	$ (766,112)	$ -	$ -	$ 7,321,731

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

Note 6: Medical Malpractice Coverage and Claims

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

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2022 and 2021:

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 1,452,730	$ -	$ 53,491	$ 1,399,239	$ 40,615
Capital lease obligations	640	-	640	-	-
Total long-term debt	$ 1,453,370	$ -	$ 54,131	$ 1,399,239	$ 40,615

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

Revenue Bonds Payable

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

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

The bond indentures require certain covenants, including financial, to be met. The financial covenants include a rate covenant that requires a debt service coverage ratio of 1.0 to be met and through 2011, monthly deposits to be made to separate accounts for debt service payments and to fund a debt service reserve. During 2022 and 2021, the Hospital met the debt service coverage ratio of 1.0.

The debt service requirements for the revenue bonds payable as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 96,431	$ 40,615	$ 55,816
2024	96,540	42,046	54,494
2025	96,584	43,921	52,663
2026	96,584	45,678	50,906
2027	96,450	47,505	48,945
2028-2032	487,604	267,242	220,362
2033-2037	477,020	325,366	151,654
2038-2042	485,821	395,886	89,935
2043-2045	203,074	190,980	12,094
	$ 2,136,108	$ 1,399,239	$ 736,869

Note 8: Pension Plan

KCMH contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the board of trustees of the Hospital. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 6.2% and 6.2%, respectively, for 2022 and 2021. Contributions actually made by plan members and the Hospital aggregated $331,029 and $343,852 during 2022 and $348,599 and $354,467 during 2021, respectively.

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 $822,735 and $682,211 for the years ending December 31, 2022 and 2021, respectively, included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of $389,975 and $305,438 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: Great Plains Employee Benefits Trust

In response to amendments to the Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through

member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method.

Note 11: COVID-19 Pandemic & *CARES Act* Funding

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

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 result of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During 2021, the Hospital received $491,447 from GPKC upon termination of the lease agreement and recorded a receivable for $245,985 related to additional revenue recognized on Phase 1 funding for a change in estimate from what GPKC had recorded as part of the December 31, 2020, audited financials. The Hospital received $132,411 and $138,345 of distributions from the *American Rescue Plan Act* and Phase 4 of the *CARES Act* Provider Relief Fund, respectively. 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 $177,187 and $931,002, 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 $177,187 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 effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions the Hospital's ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

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 $268,745 and $5,000 for the years-ended December 31, 2022 and 2021, respectively, related to SHIP grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received and recognized $59,696 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 12: Termination of Lease Agreement

The assets and liabilities transferred to KCMH as of January 1, 2021, represent an integrated set of assets and liabilities managed for the purpose of providing acute care and clinic services in the Kiowa County, Kansas area. There was no consideration given in the transaction. KCMH determined that no adjustments were necessary to the carrying values of assets transferred and as such, no impairment of capital assets transferred was recognized. As a result of the transfer, KCMH recognized the following assets, liabilities and net position as of January 1, 2021:

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

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.