

Salem Memorial District Hospital

Independent Auditor's Report and Financial Statements

June 30, 2022 and 2021



Salem Memorial District Hospital
June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Salem Memorial District Hospital
Salem, Missouri

Opinion

We have audited the accompanying financial statements of Salem Memorial District Hospital as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Salem Memorial District Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Salem Memorial District Hospital as of June 30, 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 Salem Memorial District Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 16* to the financial statements, the Hospital has suffered recurring losses from operations, has a decrease in net position, and significant cash used by operating activities, and has stated that substantial doubt exists about the Hospital's ability to continue as a going concern. Management's evaluation of the conditions and events and management's plans regarding these matters are also described in *Note 16*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, on July 1, 2021, Salem Memorial District Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 Salem Memorial District Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Salem Memorial District Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Salem Memorial District Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

FORVIS,LLP

Springfield, Missouri
January 20, 2023

Salem Memorial District Hospital

Management’s Discussion and Analysis (Unaudited)

Years Ended June 30, 2022 and 2021

Introduction

This management’s discussion and analysis of the financial performance of Salem Memorial District Hospital (the “Hospital”) provides an overview of the Hospital’s financial activities for the years ended June 30, 2022 and 2021. It should be read in conjunction with the accompanying financial statements of the Hospital. During 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, retroactively restating the amounts reported in the 2021 financial statements. The summarized financial information for the year ended June 30, 2020, included in management’s discussion and analysis, was not restated for this adoption.

Financial Highlights

- Cash and short-term investments decreased by \$464,513 or 9 percent and \$4,724,205 or 49 percent in 2022 and 2021, respectively.
- Noncurrent cash and investments decreased by \$1,400,374 or 69 percent and by \$1,329,852 or 40 percent in 2022 and 2021, respectively.
- The Hospital’s net position decreased by \$1,667,900 or 16 percent in 2022 and increased by \$1,119,282 or 12 percent in 2021.
- The Hospital reported operating losses in both 2022 (\$4,635,964) and 2021 (\$6,444,806). The operating loss in 2022 decreased by \$1,808,842 or 28 percent over the operating loss reported in 2021. The operating loss in 2021 increased by \$4,682,847 or 266 percent from the operating loss reported in 2020.
- Net nonoperating revenues decreased by \$4,596,024 or 61 percent in 2022 compared to 2021, and increased by \$7,100,356 or 1531 percent in 2021 compared to 2020.

Using This Annual Report

The Hospital’s financial statements consist of three statements—a balance sheet; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. The Hospital’s financial statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about any Hospital’s finances is, “Is the Hospital as a whole better or worse off as a result of the year’s activities?” The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital’s resources 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. Using the accrual basis of accounting means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

Salem Memorial District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2022 and 2021

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position decreased by \$1,667,900 (16 percent) in 2022 over 2021, and decreased by \$1,119,282 (12 percent) in 2021 over 2020, as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2022	2021 (As Restated)	2020
Assets			
Cash	\$ 4,514,841	\$ 4,979,354	\$ 9,703,559
Patient accounts receivable, net	1,974,650	2,408,290	3,937,295
Other current assets	2,496,586	2,758,690	2,816,168
Capital assets, net	6,249,123	6,697,170	5,406,357
Lease assets, net	950,767	803,614	-
Noncurrent cash and investments	622,237	2,022,611	3,352,463
Total assets	<u>\$ 16,808,204</u>	<u>\$ 19,669,729</u>	<u>\$ 25,215,842</u>
Liabilities			
Long-term debt	\$ 2,245,816	\$ 2,510,089	\$ 4,140,075
Long-term lease liabilities	914,245	720,309	-
Other current and noncurrent liabilities	4,775,307	5,898,595	11,654,313
Total liabilities	<u>7,935,368</u>	<u>9,128,993</u>	<u>15,794,388</u>
Net Position			
Net investment in capital assets	3,849,766	3,977,697	2,607,287
Restricted - expendable for specific operating activities	18,530	18,172	112,749
Unrestricted	5,004,540	6,544,867	6,701,418
Total net position	<u>8,872,836</u>	<u>10,540,736</u>	<u>9,421,454</u>
Total liabilities and net position	<u>\$ 16,808,204</u>	<u>\$ 19,669,729</u>	<u>\$ 25,215,842</u>

Salem Memorial District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2022 and 2021

A significant change in the Hospital's assets in 2022 is the decrease in cash and investments. Cash decreased due to increased payments to suppliers, employees, and contractors and acquisitions of new equipment in addition to ongoing operating losses incurred. Patient accounts receivable also decreased in 2022 compared to 2021 which was due primarily to a decline in overall patient volume during 2022 compared to 2021 and continued difficulties with collections within the revenue cycle.

Significant changes in the Hospital's assets in 2021 include a decrease in cash and investments. Cash decreased due to increased payments to suppliers, employees, and contractors and acquisitions of new equipment in addition to ongoing operating losses incurred. Noncurrent cash and investments also decreased due to the continued construction in progress during the year for the permanent magnetic resonance imaging machine (MRI) as well as other various renovations throughout the Hospital. Additionally, capital assets, net, increased in 2021 by \$2,094,427 as capital purchases exceeded depreciation expense. Patient accounts receivable also decreased in 2021 compared to 2020 which was due primarily to a decline in overall patient volume during 2021 compared to 2020.

Operating Results and Changes in the Hospital's Net Position

In 2022, the Hospital's net position decreased by \$1,667,900 or 16 percent as shown in Table 2. This decrease is made up of several different components and represents a decline of 249 percent compared with the increase in net position for 2021 of \$1,119,282. The Hospital's change in net position increased by \$1,119,282 in 2021 compared to the decrease in net position of \$1,298,227 for 2020, an increase of 186 percent.

Salem Memorial District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2022 and 2021

Table 2: Operating Results and Changes in Net Position

	2022	2021 (As Restated)	2020
Operating Revenues			
Net patient service revenue	\$ 23,159,547	\$ 21,356,237	\$ 24,616,986
Other operating revenues	1,513,101	1,330,990	1,818,070
Total operating revenues	<u>24,672,648</u>	<u>22,687,227</u>	<u>26,435,056</u>
Operating Expenses			
Nursing services	5,329,877	5,493,939	5,976,445
Other professional services	13,360,652	12,900,708	11,913,962
General services	1,458,278	1,616,378	1,649,504
Administrative and fiscal services	8,267,007	8,301,088	7,850,607
Depreciation	892,798	819,920	806,497
Total operating expenses	<u>29,308,612</u>	<u>29,132,033</u>	<u>28,197,015</u>
Operating Loss	<u>(4,635,964)</u>	<u>(6,444,806)</u>	<u>(1,761,959)</u>
Nonoperating Revenues (Expenses)			
Investment income	18,684	31,161	30,047
Loss on disposal of capital assets	(15,000)	-	-
Noncapital gifts and grants, net	25,699	359,431	6,702
Property taxes	584,230	581,211	460,761
Interest expense	(81,745)	(83,481)	(33,778)
Gain from extinguishment of debt	-	2,300,000	-
CARES Act funding	2,436,196	4,375,766	-
Total nonoperating revenues	<u>2,968,064</u>	<u>7,564,088</u>	<u>463,732</u>
Increase (Decrease) in Net Position	<u>\$ (1,667,900)</u>	<u>\$ 1,119,282</u>	<u>\$ (1,298,227)</u>

Salem Memorial District Hospital

Management's Discussion and Analysis (Unaudited)

Years Ended June 30, 2022 and 2021

Operating Loss

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss.

The operating loss for 2022 decreased by \$1,808,842 or 28 percent as compared to 2021. The primary component of the declined operating performance is:

- Operating expenses remained relatively stable from \$29,132,033 in 2021 to \$29,308,612 in 2022, an increase of \$176,579 or less than one percent. The Hospital entered into a reduction in force during fiscal year 2022, and several providers left the Hospital reducing overall salary expenses. The Hospital also entered into a management agreement with an outside group to help with day to day operations of the hospital which increased other professional expenses during 2022.
- An increase in net patient service revenue of \$1,803,310 or 8 percent was primarily due to an increase in overall inpatient days, reduced bad debt write-offs during 2022. This, in addition, resulted in an increase in overall net patient service revenue in 2022 compared to 2021.

The Hospital had an operating loss of \$6,444,806 in 2021 and a loss of \$1,761,959 in 2020. The primary component of the declined operating performance is:

- Operating expenses increased from \$28,197,015 in 2020 to \$29,132,033 in 2021, an increase of \$935,018 or 3.3 percent. The driving factors for the increase are increased contracted business office services, increased pharmacy expense due to a change in supplier, increased contracted laboratory services due to an increase in COVID-19 testing, and increased expenses due to the occurrence of COVID-19 during the year.
- A decrease in net patient service revenue of \$3,260,749 or 13 percent was primarily due to a decrease in inpatient admissions and outpatient visits during 2021. This, in addition to continued issues within the revenue cycle resulting in significant write-offs of accounts receivable balances, resulted in a decrease in overall net patient service revenue in 2021 compared to 2020.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, investment income, interest expense, and also CARES Act funding recognized during 2022 and 2021. Investment income was similar in 2022, 2021, and 2020. Interest expense was similar comparing 2021 to 2022 of \$81,745 and from 2020 to 2021 of \$83,481. During the years ended 2022 and 2021, the Hospital recognized \$2,436,196 and \$4,375,766 of CARES Act funding for lost revenues and expenses related to COVID-19, respectively. Additionally, during 2021 the Hospital's PPP loan was forgiven by the SBA resulting in a one-time gain from debt extinguishment of \$2,300,000.

Noncapital Gifts

The Hospital received noncapital gifts of \$25,699 and \$359,431 in 2022 and 2021, respectively, compared to \$33,092 in 2020. Substantially all of these contributions have been expended and are reflected in unrestricted net position as of June 30, 2022 and 2021.

Salem Memorial District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2022 and 2021

The Hospital's Cash Flows

The Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2022, 2021, and 2020, discussed earlier. Cash used in operating activities was \$4,696,978 and cash provided by operating activities was \$4,852,773 for 2022 and 2021, respectively. The primary reason for cash used in operating activities in both 2022 and 2021 is increased payments to suppliers, contractors, and employees and a decrease in accounts receivable due from patients and insurers.

Capital Assets

At June 30, 2022, the Hospital had \$6,249,123 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the accompanying financial statements. In 2022, the Hospital purchased new equipment and made improvements totaling \$363,752. At June 30, 2022, the Hospital had \$950,767 invested in lease assets as detailed in *Note 5* to the accompanying financial statements. In 2022, the Hospital entered into new lease arrangements totaling \$336,211.

At June 30, 2021, the Hospital had \$6,697,170 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the accompanying financial statements. In 2021, the Hospital purchased new equipment and made improvements totaling \$2,177,542. At June 30, 2021, the Hospital had \$803,614 invested in lease assets as detailed in *Note 5* to the accompanying financial statements. In 2022, the Hospital entered into new lease arrangements totaling \$865,240.

Debt

At June 30, 2022, 2021, and 2020, the Hospital had \$3,540,132, \$3,616,146, and \$5,320,564, respectively, in notes payable, financing agreements, and lease liabilities outstanding. During 2022, the Hospital did not enter into any new financing agreements or other issuances of debt.

During 2021, the Hospital received forgiveness for the \$2,300,000 loan received as part of the *Paycheck Protection Program and Health Care Enhancement Act*. The proceeds were recognized as nonoperating revenue at June 30, 2021. See *Note 8* for more information regarding the Paycheck Protection Program (PPP) loan.

The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Salem Memorial District Hospital
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2022 and 2021

COVID-19

During the last four months of fiscal 2020 and through fiscal year 2022, the Hospital's operations have been impacted by the COVID-19 outbreak and, as a result, the Hospital has seen significant fluctuations in inpatient and outpatient volume. Management is working diligently to ensure the safety of patients and employees, in addition to evaluating the ongoing impact from the pandemic on operations. At this time, management is unable to evaluate the long-term impact from the COVID-19 pandemic on ongoing operations and overall profitability. Refer to *Note 13* in the notes to the financial statements for additional information on the financial impacts of COVID-19.

Management's Consideration of Going Concern Matters

In 2022, the Hospital incurred an operating loss of \$4,635,964, a decrease in net position of \$1,667,900, net cash used in operating activities of \$3,971,978, and experienced a decrease in cash of \$1,864,887 due to decreased volumes and increases in labor and supply costs. The Hospital is evaluating the ways to reduce operating expenses and increase volumes. Since June 30, 2022, the Hospital has hired several new providers in addition to a new Chief Executive Officer. The Hospital believes it will have sufficient cash to meet its cash flow requirements over the next year. However, there can be no assurance that the Hospital will be successful in achieving its objectives.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by telephoning 573.729.6629.

Salem Memorial District Hospital
Balance Sheets
June 30, 2022 and 2021

Assets

	2022	2021 (Restated - Note 1)
Current Assets		
Cash	\$ 4,514,841	\$ 4,979,354
Restricted cash - resident funds - current	1,804	1,808
Patient accounts receivable, net of allowance; 2022 - \$4,487,897, 2021 - \$5,132,857	1,974,650	2,408,290
Other receivables	190,806	245,014
Estimated amounts due from third-party payors	1,435,629	1,646,666
Supplies	705,958	648,808
Prepaid expenses	162,389	216,394
Total current assets	8,986,077	10,146,334
Noncurrent Cash and Investments		
Internally designated - cash	18,530	18,172
Internally designated - certificates of deposit	603,707	2,004,439
	622,237	2,022,611
Capital Assets, Net	6,249,123	6,697,170
Lease Assets, Net	950,767	803,614
Total assets	\$ 16,808,204	\$ 19,669,729

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 252,280	\$ 302,443
Current maturities of lease liabilities	127,791	83,305
Accounts payable	1,446,929	1,039,521
Accrued payroll	524,008	477,321
Accrued vacation pay	525,201	548,166
Payroll taxes and other accrued expenses	512,290	354,917
Unearned revenue - CARES Act provider relief funds	-	100,000
Estimated amounts due to third-party payors	980,000	-
Advance from Medicare - current	406,808	2,112,714
Total current liabilities	4,775,307	5,018,387
Advance from Medicare	-	880,208
Long-Term Debt	2,245,816	2,510,089
Lease Liability	914,245	720,309
Total liabilities	7,935,368	9,128,993
Net Position		
Net investment in capital assets	3,849,766	3,977,697
Restricted - expendable for specific operating activities	18,530	18,172
Unrestricted	5,004,540	6,544,867
Total net position	8,872,836	10,540,736
Total liabilities and net position	\$ 16,808,204	\$ 19,669,729

Salem Memorial District Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 - \$5,035,084 and 2021 - \$5,022,405	\$ 23,159,547	\$ 21,356,237
Other	1,513,101	1,330,990
Total operating revenues	24,672,648	22,687,227
Operating Expenses		
Nursing services	5,329,877	5,493,939
Other professional services	13,360,652	12,900,708
General services	1,458,278	1,616,378
Administrative and fiscal services	8,267,007	8,301,088
Depreciation and amortization	892,798	819,920
Total operating expenses	29,308,612	29,132,033
Operating Loss	(4,635,964)	(6,444,806)
Nonoperating Revenues (Expenses)		
Investment income	18,684	31,161
Loss on disposal of capital assets	(15,000)	-
Noncapital gifts and grants, net	25,699	359,431
Property taxes	584,230	581,211
Interest expense	(81,745)	(83,481)
Gain from extinguishment of debt	-	2,300,000
CARES Act funding	2,436,196	4,375,766
Total nonoperating revenues	2,968,064	7,564,088
Increase (Decrease) in Net Position	(1,667,900)	1,119,282
Net Position, Beginning of Year	10,540,736	9,421,454
Net Position, End of Year	\$ 8,872,836	\$ 10,540,736

Salem Memorial District Hospital
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated - Note 1)
	2022	2021 (Restated - Note 1)
Operating Activities		
Receipts from and on behalf of patients	\$ 22,198,110	\$ 22,171,663
Payments to suppliers and contractors	(15,843,665)	(15,879,481)
Payments to employees	(11,893,732)	(12,648,825)
Other operating receipts	1,567,309	1,503,870
	(3,971,978)	(4,852,773)
Net cash used in operating activities		
Noncapital Financing Activities		
Noncapital gifts and grants, net	25,699	359,431
Property taxes supporting operations	584,230	581,211
CARES Act provider relief funds	2,336,196	136,100
	2,946,125	1,076,742
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Issuance of long-term debt	-	115,954
Purchase of capital assets	(363,752)	(2,177,542)
Principal paid on long-term debt	(314,706)	(323,986)
Interest paid on long-term debt	(70,230)	(76,887)
Principal paid on leases payable	(97,519)	(61,626)
Interest paid on leases payable	(11,515)	(6,594)
	(857,722)	(2,530,681)
Net cash used in capital and related financing		
Investing Activities		
Interest income on investments	19,416	31,161
Purchase of investments	-	(299,453)
Maturity of investments	1,400,000	300,000
	1,419,416	31,708
Net cash provided by investing activities		
Decrease in Cash	(464,159)	(6,275,004)
Cash, Beginning of Year	4,999,334	11,274,338
Cash, End of Year	\$ 4,535,175	\$ 4,999,334

Salem Memorial District Hospital
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated - Note 1)
Reconciliation of Cash to the Balance Sheet		
Cash	\$ 4,514,841	\$ 4,979,354
Restricted cash - resident funds - current	1,804	1,808
Noncurrent cash and investments - Internally designated - cash	18,530	18,172
Total cash	\$ 4,535,175	\$ 4,999,334
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities		
Operating loss	\$ (4,635,964)	\$ (6,444,806)
Depreciation and amortization	892,798	819,920
Provision for uncollectible accounts	5,035,084	5,022,405
Changes in operating assets and liabilities		
Accounts receivable	(4,601,444)	(3,493,400)
Estimated amounts due from and to third-party payors	(1,395,077)	(713,579)
Accounts payable and accrued expenses	681,562	(180,798)
Other assets and liabilities	51,063	137,485
Net cash used in operating activities	\$ (3,971,978)	\$ (4,852,773)
Noncash Investing, Capital, and Financial Activities		
Capital asset acquisitions in accounts payable	\$ -	\$ 93,059
Lease obligation incurred for lease assets	\$ 336,211	\$ 865,240
Extinguishment of long-term debt	\$ -	\$ 2,300,000

Salem Memorial District Hospital

Notes to Financial Statements

June 30, 2022 and 2021

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

Nature of Operations and Reporting Entity

Salem Memorial District Hospital (Hospital) is an acute care hospital located in Salem, Missouri. The Hospital is a political subdivision of the state of Missouri. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency services to patients in the Salem, Missouri, area. The Hospital also provides physician, home health, and long-term care services in that area.

The financial statements include Salem Memorial District Hospital's Foundation (Foundation), which is a 501(c)3 nonprofit healthcare organization, established in July 2018 in order to promote and support the Hospital in the provision of healthcare. The Foundation is a separate legal entity but is financially integrated with the Hospital and is reported as a blended component unit of the Hospital and does not issue separate financial statements. During the year ended June 30, 2022, the Foundation lost its exempt status; however, it is currently in the process of reinstating its 501(c)3 status.

Foundation

The Foundation is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

There was no activity or balances for the Foundation as of and for the years ended June 30, 2022 and 2021.

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

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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.

Property Taxes

The Hospital received approximately 2.2 percent and 2.4 percent of its financial support from property taxes to be used to support operations and capital asset additions in 2022 and 2021, respectively. Taxes are assessed in January, due on November 1, and delinquent after December 31 of each calendar year. Revenue from property taxes is recognized in the year for which the taxes are levied.

The Hospital has the express power to levy taxes and issue bonds under limitations set forth in the Missouri Constitution. The revenue from tax levies included in the accompanying financial statements was based on \$.2400 per \$100 assessed valuation which represents levies for general operations for the years ended June 30, 2022 and 2021.

Risk Management

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

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate cost for both reported claims and claims incurred but not yet reported.

Restricted Cash

The Hospital is required by the state of Missouri to establish a restricted fund for funds received on behalf of various long-term care residents. The Hospital has fiduciary responsibility for the administration of the bank accounts and the distribution of the funds to residents. The Hospital had \$1,804 and \$1,808 of restricted cash for resident funds at June 30, 2022 and 2021, respectively.

Investments and Investment Income

Investments consist of nonnegotiable certificates of deposit carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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.

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Supplies

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

Capital Assets

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

Land improvements	15 - 20 years
Buildings and fixed equipment	20 - 40 years
Moveable equipment	4 - 10 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset in service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Asset Impairment

The Hospital evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of capital assets has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, either accumulated depreciation is increased by the amount of the impairment loss or the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended June 30, 2022, or 2021.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

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.

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

Conditional Grants

The Hospital received conditional grant funds during the years ended June 30, 2022 and 2021, see *Note 13*, for amounts recorded within the financial statements for the years ended June 30, 2022 and 2021.

Net Position

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

- 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 consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital.
- 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 payors 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 payors, 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.

Charity Care

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

Income Taxes

As an essential government function of the county, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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The Foundation is exempt from income taxes under the provisions of Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Change in Accounting Principle

On July 1, 2021, the Hospital adopted GASB Statement No. 87, *Leases*, using a retrospective method of adoption to all leases in place and not yet completed at the beginning of the earliest period presented. The statement requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible right-to-use lease asset. The 2021 financial statements and disclosures were restated to reflect the impact of the adoption.

The effect of the changes made to the accompanying balance sheet and statement of cash flows as of and for the year ended June 30, 2021, are as follows:

	2021			
	(As Previously	Effect of	2021	
	Reported)	Adoption	(As Restated)	
Statement of Net Position				
Noncurrent Assets				
Capital assets, net	\$ 7,500,784	\$ (803,614)	\$ 6,697,170	
Lease assets, net	-	803,614	803,614	
Current Liabilities				
Current maturities of long-term debt	\$ 385,748	\$ (83,305)	\$ 302,443	
Current maturities of lease liabilities	-	83,305	83,305	
Noncurrent Liabilities				
Long-term debt	\$ 3,230,398	\$ (720,309)	\$ 2,510,089	
Lease liabilities	-	720,309	720,309	
Statement of Cash Flows				
Capital and Related Financing Activities				
Issuance of long-term debt	\$ -	\$ 115,954	\$ 115,954	
Purchase of capital assets	(2,061,588)	(115,954)	(2,177,542)	
Principal paid on long-term debt	(385,612)	61,626	(323,986)	
Interest paid on long-term debt	(83,481)	6,594	(76,887)	
Principal paid on leases payable	-	(61,626)	(61,626)	
Interest paid on leases payable	-	(6,594)	(6,594)	
Cash Used in Operating Activities				
Operating loss	(47,144,366)	3,074	(47,141,292)	
Depreciation expense	5,977,786	7,234	5,985,020	
Amortization expense	197,833	(155,544)	42,289	
Accounts payable and accrued liabilities	38,865	36,172	75,037	
Noncash Investing, Capital, and Financing Activities				
Lease obligation incurred for lease assets	981,194	(115,954)	865,240	

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Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care and swing-bed skilled nursing services and substantially all outpatient services rendered to Medicare program beneficiaries are paid based on cost reimbursed formulas as a critical access hospital. Home health services related to Medicare beneficiaries are paid based on prospectively determined rates per episode of care. 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.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively established per diem rate. Medicaid outpatient reimbursement is based on a combination of prospectively determined fee schedules and on a prospective percentage of charges.

Other. The Hospital has 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.

Approximately 63 percent and 66 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 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 receives additional reimbursements from the Missouri Medicaid program in relation to the percentage of Medicaid and indigent populations they serve. Funding received in excess of costs to provide these services may be refunded to the state. As of June 30, 2022 and 2021, the Hospital has recorded a liability of \$255,000 and \$350,000, respectively, for the portion of funding received in excess of costs. It is reasonably possible that this estimate could materially change in the near term.

Note 3: Deposits and Investment Income

Deposits

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

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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 of the state of Missouri; bonds of any city, county, school district, or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2022 and 2021, respectively, \$129,157 and \$0 of the Hospital's bank balances of \$5,415,005 and \$7,053,090, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	<u>\$ 5,138,882</u>	<u>\$ 7,003,773</u>
Included in the following balance sheet captions		
Cash	\$ 4,514,841	\$ 4,979,354
Restricted cash - resident funds - current	1,804	1,808
Noncurrent cash and investments	<u>622,237</u>	<u>2,022,611</u>
	<u>\$ 5,138,882</u>	<u>\$ 7,003,773</u>

Investment Income

Investment income consisted of interest income in the amounts of \$18,684 and \$31,161 for the years ended June 30, 2022 and 2021, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at June 30, 2022 and 2021, consisted of:

	2022	2021
Medicare	\$ 893,417	\$ 966,172
Medicaid	376,164	54,254
Other third-party payors	549,597	1,112,547
Blue Cross	112,731	283,887
Patients	<u>4,530,638</u>	<u>5,124,287</u>
	6,462,547	7,541,147
Less allowance for uncollectible accounts	<u>4,487,897</u>	<u>5,132,857</u>
	<u>\$ 1,974,650</u>	<u>\$ 2,408,290</u>

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Note 5: Capital and Lease Assets

Capital assets activity for the years ended June 30 was:

	Beginning Balance	2022			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 38,329	\$ -	\$ -	\$ -	\$ 38,329
Buildings and land improvements	8,488,872	-	-	2,409,919	10,898,791
Fixed equipment	1,185,727	-	-	-	1,185,727
Moveable equipment	9,836,093	59,266	229,374	-	9,665,985
Construction in progress	2,206,161	224,593	15,000	(2,409,919)	5,835
	<u>21,755,182</u>	<u>283,859</u>	<u>244,374</u>	<u>-</u>	<u>21,794,667</u>
Less accumulated depreciation					
Buildings and land improvements	5,906,261	232,293	-	-	6,138,554
Fixed equipment	1,238,943	1,412	-	-	1,240,355
Moveable equipment	7,912,808	470,035	216,208	-	8,166,635
	<u>15,058,012</u>	<u>703,740</u>	<u>216,208</u>	<u>-</u>	<u>15,545,544</u>
Capital assets, net	<u>\$ 6,697,170</u>	<u>\$ (419,881)</u>	<u>\$ 28,166</u>	<u>\$ -</u>	<u>\$ 6,249,123</u>

	Beginning Balance	2021 (As Restated)			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 38,329	\$ -	\$ -	\$ -	\$ 38,329
Buildings and land improvements	8,090,796	-	317	398,393	8,488,872
Fixed equipment	1,185,727	-	-	-	1,185,727
Moveable equipment	9,339,513	415,716	21,467	102,331	9,836,093
Construction in progress	1,070,720	1,636,165	-	(500,724)	2,206,161
	<u>19,725,085</u>	<u>2,051,881</u>	<u>21,784</u>	<u>-</u>	<u>21,755,182</u>
Less accumulated depreciation					
Buildings and land improvements	5,739,228	167,033	-	-	5,906,261
Fixed equipment	1,175,891	63,052	-	-	1,238,943
Moveable equipment	7,403,609	528,209	19,010	-	7,912,808
	<u>14,318,728</u>	<u>758,294</u>	<u>19,010</u>	<u>-</u>	<u>15,058,012</u>
Capital assets, net	<u>\$ 5,406,357</u>	<u>\$ 1,293,587</u>	<u>\$ 2,774</u>	<u>\$ -</u>	<u>\$ 6,697,170</u>

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Lease assets activity for the years ended June 30 was:

	2022				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Equipment	\$ 865,240	\$ 336,211	\$ -	\$ -	\$ 1,201,451
Less accumulated amortization Equipment	61,626	189,058	-	-	250,684
Lease assets, net	<u>\$ 803,614</u>	<u>\$ 147,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 950,767</u>
	2021 (As Restated)				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	\$ -	\$ 865,240	\$ -	\$ -	\$ 865,240
Less accumulated amortization Equipment	-	61,626	-	-	61,626
Lease assets, net	<u>\$ -</u>	<u>\$ 803,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 803,614</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a retrospectively rated premium basis. Adjustments of estimated to actual expense, if any, after the policy terms, are included in the period such adjustments are determined. Also, the Hospital bears risk for the portion of any individual claim which exceeds insurance coverage limits. Accounting principles generally accepted in the United States of America require a healthcare 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. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate amount.

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A provision is accrued for self-insured employee health claims, which is included within payroll taxes and other accrued expenses on the balance sheets, including both claims reported, and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2022 and 2021 is summarized as follows:

	2022	2021
Balance, beginning of year	\$ 238,936	\$ 430,730
Current year claims incurred and changes in estimates for claims incurred in prior years	2,702,168	2,687,685
Claims and expenses paid	(2,457,506)	(2,879,479)
Balance, end of year	\$ 483,598	\$ 238,936

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30:

	Beginning Balance	2022 Additions	2022 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2020 Hospital Revenue Bonds	\$ 2,428,950	\$ -	\$ 145,082	\$ 2,283,868	\$ 136,565
Radiographic System	78,584	-	50,477	28,107	28,107
Ambulance	75,622	-	56,424	19,198	19,198
Ultrasound	128,227	-	40,148	88,079	45,381
Mobile X-Ray	101,149	-	22,575	78,574	23,029
Total long-term debt	2,812,532	-	314,706	2,497,826	252,280
Other Long-Term Liabilities					
Lease liabilities	803,614	336,211	97,519	1,042,306	127,791
Total long-term obligations	\$ 3,616,146	\$ 336,211	\$ 412,225	\$ 3,540,132	\$ 380,071

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	2021 (As Restated)				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2020 Hospital Revenue Bonds	\$ 2,500,000	\$ -	\$ 71,050	\$ 2,428,950	\$ 132,838
Paycheck Protection Program Loan	2,300,000	-	2,300,000	-	-
Radiographic System	124,240	-	45,656	78,584	46,808
Ambulance	130,325	-	54,703	75,622	56,399
GE CT Scanner	95,453	-	95,453	-	-
Ultrasound	170,546	-	42,319	128,227	43,822
Mobile X-Ray	-	115,954	14,805	101,149	22,576
	<u>5,320,564</u>	<u>115,954</u>	<u>2,623,986</u>	<u>2,812,532</u>	<u>302,443</u>
Other Long-Term Liabilities					
Lease liabilities	-	865,240	61,626	803,614	83,305
Total long-term obligations	<u>\$ 5,320,564</u>	<u>\$ 981,194</u>	<u>\$ 2,685,612</u>	<u>\$ 3,616,146</u>	<u>\$ 385,748</u>

Series 2020 Revenue Bonds Payable

The Series 2020 Hospital Revenue Bonds dated March 12, 2020, were issued in the original amount of \$2,500,000 to provide financing for construction and renovations throughout the Hospital. The Series 2020 Bonds are secured by the net revenues of the Hospital. The Hospital is making monthly interest-only payments beginning May 1, 2020. Scheduled monthly interest and principal payments commenced on February 1, 2021, through maturity at June 1, 2035. Interest on the Series 2020 Bonds is 2.77 percent.

The indenture agreement requires the Hospital to comply with restrictive covenants including historical debt-service-coverage ratio of at least 1.25. The bond indenture requires the Hospital to obtain a consultant's report with recommendations to improve operations in the first year the ratio is not met. The year ended June 30, 2022, is the first year this ratio was not met.

Paycheck Protection Program (PPP) Loan

Note payable dated May 5, 2020, to Bank of Salem, in the amount of \$2,300,000 at 1.0 percent interest, monthly payments of \$129,437 payable for a period of seventeen months beginning on December 5, 2020, with a final payment on May 5, 2022. These proceeds were issued by the Small Business Administration (SBA) through the *Paycheck Protection Program and Health Care Enhancement Act*, as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. In 2021, the Hospital received legal notice that the PPP loan was forgiven in its entirety and has recognized the gain from extinguishment of debt within nonoperating revenue during the year ended June 30, 2021. Refer to *Note 13* for additional information on the financial impacts of COVID-19.

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Financed Purchases

Radiographic System

Payable in monthly installments with 2.50 percent interest commencing February 22, 2018, final payment due February 22, 2023, collateralized by equipment.

Ambulance - 2019

Payable in monthly installments with 3.05 percent interest commencing November 1, 2019, final payment due October 23, 2022, collateralized by equipment.

GE CT Scanner

Payable in 60 monthly installments of \$8,745, including interest at 1.56 percent, final payment due June 2021, collateralized by equipment. Obligation was paid in full during 2021.

Ultrasound

Payable in 60 monthly installments of \$3,968, including interest at 3.50 percent, final payment due April 2024, collateralized by equipment.

Mobile X-Ray

Payable in 60 monthly installments of approximately \$2,032, including interest at 1.99 percent, final payment due October 2025, collateralized by equipment.

Debt service requirements on long-term debt as of June 30, 2022, are as follows:

Year Ending June 30	Total to be Paid	Bonds		Financed Purchases	
		Principal	Interest	Principal	Interest
2023	\$ 198,287	\$ 136,565	\$ 61,722	\$ 115,715	\$ 72,296
2024	210,532	152,984	57,548	66,189	66,570
2025	210,531	157,275	53,256	23,963	60,670
2026	210,532	161,688	48,844	8,091	54,593
2027	210,532	166,224	44,308	-	48,333
2028 - 2032	1,052,657	903,741	148,916	-	177,827
2033 - 2035	631,591	605,391	26,200	-	-
	<u>\$ 2,724,662</u>	<u>\$ 2,283,868</u>	<u>\$ 440,794</u>	<u>\$ 213,958</u>	<u>\$ 480,289</u>

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Note 9: Lease Liabilities

The Hospital leases equipment, the terms of which expire in various years through 2031. The leases were measured based upon the interest rate implicit per the contract or the Hospital's incremental borrowing rate at lease commencement. Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance.

The following is a schedule of payments by year under the leases as of June 30, 2022:

Year Ending June 30	Total to be Paid	Principal	Interest
2023	\$ 145,183	\$ 127,791	\$ 17,392
2024	145,184	130,189	14,995
2025	145,184	132,651	12,533
2026	145,183	135,177	10,006
2027	145,182	137,772	7,410
2028	145,184	140,438	4,746
2029	127,109	125,022	2,087
2030	90,960	90,240	720
2031	22,788	22,756	32
	<u>\$ 1,111,957</u>	<u>\$ 1,042,036</u>	<u>\$ 69,921</u>

Note 10: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$164,000 and \$190,000 for 2022 and 2021, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 11: Pension Plan

The Hospital 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 a board of directors. The plan provides retirement benefits to plan members. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The contribution rate for the Hospital expressed as a percentage of covered payroll was a match of up to 4 percent for 2022 and 2021, however from April through June 2022 the match was suspended. Contributions actually made by the Hospital aggregated \$208,290 and \$266,410 during 2022 and 2021, respectively.

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Note 12: Significant Estimates and Concentrations

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation or regulatory action. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices, performance of contracts, or compliance and regulatory issues. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Financial Impacts from COVID-19 and CARES Act Funding

On March 11, 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 healthcare facilities.

While most of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

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

In addition, the Hospital received approximately \$3,250,000 of accelerated Medicare payments and approximately \$9,150,000 in general and targeted Provider Relief Fund distributions, both as provided for under the CARES Act.

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. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed, or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

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Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results 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 the years ended June 30, 2022 and 2021, respectively, the Hospital received \$2,336,196 and \$136,100 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required 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 revenue and expenses through June 30, 2022, the Hospital recognized \$2,336,196 and \$4,375,766 during 2022 and 2021, respectively, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – CARES Act funding in our statement of revenues, expenses, and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned revenue in the accompanying balance sheets.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to June 30, 2022, in accordance with GASB codification Section 2250 and have concluded as follows:

- July 1, 2021, FAQs – recognized

The Hospital has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2022, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. For guidance issued subsequent to June 30, 2022, considered nonrecognized subsequent events, the Hospital has reviewed this guidance and cannot currently estimate the impact on the amount of Provider Relief Fund the Hospital has recognized through June 30, 2022, but the impact could be material. 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. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

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Medicare Accelerated and Advanced Payment Program

During the year ended June 30, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

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

During the year ended June 30, 2020, the Hospital received approximately \$3,250,000 from these accelerated Medicare payment requests. During the years ended June 30, 2022 and 2021, Medicare has applied approximately \$2,588,900 and \$257,100, respectively, from these accelerated Medicare payment requests against filed claims. The unapplied amount of accelerated Medicare payment requests are recorded as a short-term liability in the accompanying balance sheets. As of June 30, 2022, \$406,808 of accelerated Medicare payment requests are recorded as current liabilities under the caption advance from Medicare current in the accompanying balance sheets. As of June 30, 2021, \$2,112,714 and \$808,208, respectively, of accelerated Medicare payment requests are recorded as current liabilities under the caption advance from Medicare current and noncurrent liabilities in the accompanying balance sheets.

Paycheck Protection Program (PPP) Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital is accounting for the PPP loan in accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. In 2021, the Hospital received legal notice that the PPP loan was forgiven in its entirety and has recognized the gain from extinguishment as nonoperating revenue on the accompanying statements of revenues, expenses, and changes in net position. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. See *Note 8* for additional information.

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Note 14: Significant Commitments and Agreements

The Hospital and a national information technology company have entered into multiple strategic information technology service agreements. The Hospital has delayed implementation of the information technology system indefinitely, however, no formal agreement to terminate the contract has been completed through the date of issuance of the audit for the year ended June 30, 2022. The agreements with the vendor have various effective dates for a period of seven years, beginning on the first productive use date. The monthly recurring amount is \$32,613, for a total of \$2,739,492 through the seven-year period. At June 30, 2022, no amounts related to this contract have been accrued or expensed related to this contract within the financial statements.

During the year ended June 30, 2022, the Hospital entered into a management agreement to help perform the day to day operations of the Hospital. The management agreement provides various resources, oversight, billing and collection capabilities, etc. The monthly management fee for the Hospital is approximately \$70,000 per month. In addition, the management company charges additional fees for additional resources or staffing. Through the year ended June 30, 2022, the Hospital had paid the management company approximately \$300,000.

Note 15: Subsequent Events

Subsequent to year-end the Hospital has entered into a long-term lease arrangement to lease equipment for eighty-four months of which total lease payments will approximately be \$692,000 over the life of the lease agreement.

Subsequent to year-end the Hospital has entered into a long-term lease arrangement to lease equipment for sixty months of which total lease payments will approximately be \$280,000 over the life of the lease agreement.

Subsequent events have been evaluated through January 20, 2023, which is the date the financial statements were available to be issued.

Note 16: Management's Consideration of Going Concern Matters

In 2022, the Hospital incurred an operating loss of \$4,635,964, a decrease in net position of \$1,667,900, net cash used in operating activities of \$3,971,978, and experienced a decrease in cash of \$1,864,887 due to decreased volumes and increases in labor and supply costs. The Hospital is evaluating the ways to reduce operating expenses and increase volumes. Since June 30, 2022, the Hospital has hired several new providers in addition to a new Chief Executive Officer. The Hospital believes it will have sufficient cash to meet its cash flow requirements over the next year. However, there can be no assurance that the Hospital will be successful in achieving its objectives.

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The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern; however, the above conditions raise substantial doubt about the Hospital's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Hospital be unable to continue as a going concern.