

Independent Auditor's Report and Financial Statements
Clay County Medical Center
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Clay County Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Clay County Medical Center (Medical Center) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

In our opinion, except for the effects on the financial statements of the omission described in the following paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The 2021 and 2020 financial statements referred to above do not include financial data of the Clay County Hospital Foundation (Foundation), a component unit of the Medical Center based on the nature and significance of the relationship between the Medical Center and the Foundation. Although the Medical Center does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2021 and 2020, the component unit's assets and net assets would be approximately \$1,468,000 and \$1,257,000, respectively; and there would be an increase in component unit net assets of approximately \$211,000 in 2021 and a decrease in component unit net assets of approximately \$120,000 in 2020.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the controller General of the United States, and the Kansas Municipal Audit and Accounting Guide for the audit of the financial statements as of and for the year ended December 31, 2021. The audit of the financial statements as of and for the year ended December 31, 2020, was not conducted under Government Auditing Standards. 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 the Medical Center and to meet our other ethical responsibilities in accordance with 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 these 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 the Medical Center's ability to continue as a going concern for twelve 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 generally accepted auditing standards, *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide 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 generally accepted auditing standards and *Government Auditing Standards*, 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 the Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

The Medical Center has omitted a 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 opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying information on pages 22 through 27 and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 22 through 27 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 28 is presented solely as supplementary information. This data has been summarized from the Medical Center's records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2022, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.



Topeka, Kansas
September 2, 2022

Financial Statements

**Clay County Medical Center
Statements of Net Position
December 31,**

Assets and Deferred Outflows of Resources

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and invested cash	\$ 13,888,199	\$ 15,548,876
Assets whose use is limited - required for current liabilities (Note D)	69,420	92,515
Patient accounts receivable, net of allowance for doubtful accounts of \$2,332,109 in 2021 and \$2,369,565 in 2020 (Note A4)	5,536,898	2,933,481
Other receivables	768,439	596,676
Inventories (Note A5)	338,296	233,394
Estimated settlements due from third-party payors (Note B)		2,256,000
Prepaid expenses	<u>409,307</u>	<u>252,030</u>
Total current assets	<u>21,010,559</u>	<u>21,912,972</u>
Assets whose use is limited		
By Board of Trustees (Note C)	5,167,544	7,950,145
By agreement held by trustee (Note D)	<u>69,420</u>	<u>92,515</u>
	5,236,964	8,042,660
Less assets whose use is limited and that are required for current liabilities	<u>69,420</u>	<u>92,515</u>
Noncurrent assets whose use is limited	<u>5,167,544</u>	<u>7,950,145</u>
Capital assets - net (Notes A7, E, and J)	<u>26,495,698</u>	<u>24,171,710</u>
Right of use subscription assets - net (Notes A8 and Q)	<u>1,493,514</u>	
Other assets		
Other investments (Notes A11 and F)	<u>273,875</u>	<u>243,410</u>
Total assets	<u>54,441,190</u>	<u>54,278,237</u>
Deferred outflows of resources		
Deferred outflows on advance refunding (Notes A10 and J)	<u>422,239</u>	
Total assets and deferred outflows of resources	<u>\$ 54,863,429</u>	<u>\$ 54,278,237</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	<u>2021</u>	<u>2020</u>
Current liabilities		
Current installments of long-term debt (Note J)	\$ 715,000	\$ 595,000
Current installments of right of use subscription obligations (Note Q)	474,661	
Accounts payable and other accrued liabilities	1,210,351	1,411,045
SBA PPP loan payable (Note G)		2,580,600
Unearned CARES Act Revenue (Note H)	1,808,860	3,802,219
Salaries and wages payable	599,907	720,394
Accrued compensated absences	761,333	789,612
Medicare accelerated payments (Note I)		6,121,590
Estimated settlements due to third-party payors (Note B)	1,861,000	
Accrued interest payable	<u>91,011</u>	<u>134,100</u>
Total current liabilities	<u>7,522,123</u>	<u>16,154,560</u>
 Right of use subscription obligations, excluding current installments (Note Q)	 <u>783,322</u>	 <u> </u>
 Long-term debt, excluding current installments (Note J)	 <u>15,260,568</u>	 <u>15,472,598</u>
 Total liabilities	 <u>23,566,013</u>	 <u>31,627,158</u>
 Net position (Note A12)		
Invested in capital assets - net of related debt	10,520,130	8,104,111
Restricted for debt service (Note D)	69,420	92,515
Unrestricted	<u>20,707,866</u>	<u>14,454,453</u>
 Total net position	 <u>31,297,416</u>	 <u>22,651,079</u>
 Total liabilities and net position	 <u>\$ 54,863,429</u>	 <u>\$ 54,278,237</u>

Clay County Medical Center
Statements of Revenue, Expenses, and Changes in Net Position
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Operating revenues		
Net patient service revenue	\$ 29,712,497	\$ 25,039,368
Other	<u>3,466,201</u>	<u>3,929,623</u>
Total operating revenue	<u>33,178,698</u>	<u>28,968,991</u>
Operating expenses		
Salaries and wages	13,820,806	12,532,388
Employee benefits	2,922,337	2,958,723
Supplies and other	12,181,234	10,673,486
Depreciation	2,618,665	2,360,376
Right of use subscription asset amortization	<u>195,871</u>	<u></u>
Total operating expenses	<u>31,738,913</u>	<u>28,524,973</u>
Operating income	<u>1,439,785</u>	<u>444,018</u>
Nonoperating revenues (expenses), net		
Tax levy	782,458	743,676
Interest expense	(594,009)	(488,507)
Investment income	95,139	90,628
Noncapital grants and contributions	150,096	244,184
SBA PPP loan forgiveness	2,580,600	
CARES Act grant revenues	1,347,479	902,227
Gain on disposal of capital assets	<u>7,763</u>	<u>14,835</u>
Total nonoperating revenues (expenses), net	<u>4,369,526</u>	<u>1,507,043</u>
Revenues in excess of expenses before capital contributions	5,809,311	1,951,061
Capital contributions	<u>2,837,027</u>	<u>584,361</u>
Change in net position	8,646,338	2,535,422
Net position at beginning of year	<u>22,651,079</u>	<u>20,115,657</u>
Net position at end of year	<u><u>\$ 31,297,417</u></u>	<u><u>\$ 22,651,079</u></u>

The accompanying notes are an integral part of these statements.

**Clay County Medical Center
Statements of Cash Flows
Year ended December 31,**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 25,104,490	\$ 28,535,928
Payments to or on behalf of employees	(16,795,370)	(15,191,012)
Payments for suppliers and services	(12,677,055)	(10,715,397)
Other receipts and payments	<u>3,251,349</u>	<u>3,840,619</u>
Net cash provided (used) by operating activities	<u>(1,116,586)</u>	<u>6,470,138</u>
Cash flows from noncapital financing activities		
Tax levy	782,458	743,676
Proceeds from SBA PPP loan payable		2,580,600
Proceeds from CARES Act funding	1,908,354	3,802,219
Noncapital grants and contributions	<u>150,096</u>	<u>1,146,411</u>
Net cash provided by noncapital financing activities	<u>2,840,908</u>	<u>8,272,906</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(5,006,244)	(3,352,204)
Proceeds from sale of capital assets	7,762	14,835
Principal payments on right of use subscription obligations	(431,402)	
Proceeds from issuance of long-term debt	7,940,000	
Principal payments on long-term debt	(595,000)	(510,000)
Advanced refunding of bonds	(7,797,122)	
Capital contributions received	282,793	584,361
Interest paid	<u>(656,156)</u>	<u>(547,875)</u>
Net cash used by capital and related financing activities	<u>(6,255,369)</u>	<u>(3,810,883)</u>
Cash flows from investing activities		
Change in assets whose use is limited held by trustee	23,095	8,576
Change in other investments	(30,465)	84,643
Investment income received	<u>95,139</u>	<u>90,628</u>
Net cash provided by investing activities	<u>87,769</u>	<u>183,847</u>
Change in cash and cash equivalents	(4,443,278)	11,116,008
Cash and cash equivalents at beginning of year	<u>23,499,021</u>	<u>12,383,013</u>
Cash and cash equivalents at end of year	<u>\$ 19,055,743</u>	<u>\$ 23,499,021</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 13,888,199	\$ 15,548,876
Cash included in assets whose use is limited by Board of Trustees	<u>5,167,544</u>	<u>7,950,145</u>
	<u>\$ 19,055,743</u>	<u>\$ 23,499,021</u>

The accompanying notes are an integral part of these statements.

Clay County Medical Center
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities		
Operating income	\$ 1,439,785	\$ 444,018
Adjustments to reconcile operating income		
to net cash provided (used) by operating activities		
Depreciation and amortization	2,814,536	2,360,376
Provision for bad debts	907,462	837,802
Changes in		
Accounts receivable	(3,510,879)	(903,359)
Other receivables	(171,763)	(85,179)
Estimated settlements with third-party payors	4,117,000	(2,559,473)
Medicare accelerated payments	(6,121,590)	6,121,590
Inventories and prepaid expenses	(262,179)	139,609
Accounts payable and accrued expenses	<u>(328,958)</u>	<u>114,754</u>
Net cash provided (used) by operating activities	<u><u>\$ (1,116,586)</u></u>	<u><u>\$ 6,470,138</u></u>

The accompanying notes are an integral part of these statements.

Clay County Medical Center
Notes to Financial Statements
December 31, 2021 and 2020

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

Clay County Medical Center (Medical Center) is located in Clay Center, Kansas, and operates a 25-bed hospital. On July 1, 2016, the Medical Center acquired a physician practice and is operating it as a provider-based rural health clinic. The Medical Center is owned by Clay County, Kansas (County), and governed by an elected five-member Board of Trustees. The Medical Center is a component unit of the County.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Blended component unit

Liberty Square, Inc. (LSI), is a not-for-profit corporation that was established for the basic purpose of leasing a nursing home and extended care facility to another party. LSI is governed by a Board of Trustees who hold their positions as a result of being elected members of the Medical Center's Board. For financial reporting purposes, LSI is reported as if it were a part of the Medical Center. The net assets of LSI, if any, are to be distributed to the Medical Center upon dissolution.

2. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of estimates

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

4. Patient accounts receivable

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

5. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

6. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

7. Capital assets

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

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

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

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

8. Right of use subscription assets and obligations

Right of use subscription assets and obligations are recorded at the present value of the subscription payments over the agreement term using the implicit rate in the agreement or the Medical Center's incremental borrowing rate. Rental escalation clauses and renewal options are factored into the determination of subscription payments when appropriate.

9. Costs of borrowing

Original issue premiums and discounts associated with issuance of long-term debt are amortized using the principal outstanding method over the term of the related debt.

10. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

11. Other investments

The Medical Center's investments in Mobile Clinical Services, Inc., Clay County Assisted Living, LLC, and Community Holdings LLC are stated at cost plus equity in undistributed net earnings (loss) since the date of acquisition.

12. Net position

The net position of the Medical Center is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

13. Operating revenues and expenses

The statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

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

14. Net patient service revenue

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

15. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and other organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

16. Charity care

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

17. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(c)(3) of the Internal Revenue Code.

18. Cash equivalents

The Medical Center considers all cash and invested cash, excluding any assets whose use is limited by agreement held by trustee, to be cash equivalents for purposes of the cash flow statement.

19. Adoption of accounting pronouncements

Effective January 1, 2021, the Medical Center early adopted GASB Statement No. 96 *Subscription-Based Information Technology Arrangements*. Under the provisions of GASB 96, the Medical Center recognized a right to use subscription asset (an intangible asset) and a corresponding subscription liability. The subscription liability was initially measured at the present value of the subscription payments expected to be made during the subscription term. The subscription asset was initially measured as the sum of (1) the initial subscription liability amount and (2) any implementation costs that meet the criteria for capitalization. The amortization of the subscription liability is recognized as an outflow of resources and the amortization of the subscription asset is also recognized as an outflow of resources over the subscription term. Prior period financial statement amounts have not been adjusted to reflect the provisions of GASB 96.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note B - Reimbursement Programs

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

Medicare - Inpatient and outpatient services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access provisions are primarily based on various cost reimbursement methodologies. Rural Health Clinic services are also paid on a cost reimbursement methodology. Physician and hospice services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule.

The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2018.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 51,915,751	\$ 42,441,762
Adjustments to patient revenue		
Third-party contractual adjustments, discounts, and allowances	(20,958,173)	(16,287,680)
Provision for bad debts	(907,462)	(837,802)
Charity care	<u>(337,619)</u>	<u>(276,912)</u>
Net patient service revenue	<u>\$ 29,712,497</u>	<u>\$ 25,039,368</u>

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note B - Reimbursement Programs - Continued

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2021 and 2020, was \$337,619 and \$276,912, respectively. The Medical Center estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Medical Center's cost reports, was \$192,036 and \$173,882 for 2021 and 2020, respectively.

Note C - Assets Whose Use is Limited by Board of Trustees

Assets whose use is limited by the Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets, future bond principal and interest payments, and for deductible amounts under the Medical Center's health plan. The assets may be used for other purposes by action of the Board of Trustees.

Note D - Assets Whose Use is Limited by Agreement Held by Trustee

Assets whose use is limited by agreement held by trustee are related to the Series 2016 General Obligation Refunding and Improvement Bonds and the Series 2021-B Taxable General Obligation Refunding Bonds (see Note J).

Funds held in these accounts consist of invested cash and are summarized as follows:

	<u>2021</u>	<u>2020</u>
Debt Service Account	\$ 69,420	\$ 92,515
Less amounts required for current liabilities	<u>69,420</u>	<u>92,515</u>
	<u>\$ -</u>	<u>\$ -</u>

The Debt Service Account is to be used to pay interest and principal payments on the bonds. Funds in these accounts that are required for obligations classified as current liabilities are reported in current assets.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note E - Capital Assets

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

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land-nondepreciable	\$ 411,201	\$ -	\$ -	\$ 411,201
Land improvements	1,984,746	355,155		2,339,901
Buildings and fixed equipment	34,144,554	4,001,465		38,146,019
Major movable equipment	9,502,820	1,178,256	135,190	10,545,886
Totals at historical cost	46,043,321	5,534,876	135,190	51,443,007
Less accumulated depreciation and amortization				
Land improvements	529,713	118,600		648,313
Buildings and fixed equipment	15,025,610	1,860,740		16,886,350
Major movable equipment	6,954,597	639,325	135,190	7,458,732
	22,509,920	2,618,665	135,190	24,993,395
	23,533,401	2,916,211		26,449,612
Projects in progress	638,309	4,001,995	4,594,218	46,086
Capital assets, net	<u>\$ 24,171,710</u>	<u>\$ 6,918,206</u>	<u>\$ 4,594,218</u>	<u>\$ 26,495,698</u>
	2020			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land-nondepreciable	\$ 411,201	\$ -	\$ -	\$ 411,201
Land improvements	1,741,730	243,016		1,984,746
Buildings and fixed equipment	31,040,860	3,103,694		34,144,554
Major movable equipment	8,792,162	714,139	3,481	9,502,820
Totals at historical cost	41,985,953	4,060,849	3,481	46,043,321
Less accumulated depreciation and amortization				
Land improvements	425,014	104,699		529,713
Buildings and fixed equipment	13,423,962	1,601,648		15,025,610
Major movable equipment	6,304,049	654,029	3,481	6,954,597
	20,153,025	2,360,376	3,481	22,509,920
	21,832,928	1,700,473		23,533,401
Projects in progress	1,199,363	1,965,713	2,526,767	638,309
Capital assets, net	<u>\$ 23,032,291</u>	<u>\$ 3,666,186</u>	<u>\$ 2,526,767</u>	<u>\$ 24,171,710</u>

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note F - Other Investments

Other investments consist of 5,000 shares (25 percent) of the common stock of Mobile Clinical Services, Inc. (MCS), two units (22.2 percent) of the ownership units of Clay County Assisted Living, LLC (CCAL), and a 8.04 percent equity interest in Community Holdings LLC (CH) (see Note M). The Medical Center's equity in undistributed net earnings of MCS since acquisition is \$94,068. The Medical Center's equity in the undistributed net loss of CCAL since acquisition is \$100,000. The Medical Center's equity in the undistributed net loss of CH since acquisition is \$(69,315). The carrying values of MCS, CCAL, and CH are \$99,068, \$(58,468), and \$233,275 at December 31, 2021, respectively.

Nuclear medicine and ultrasound services are provided to the Medical Center through arrangements with MCS. Total fees charged to operating expense for these services were approximately \$89,000 in 2021 and \$70,000 in 2020. Amounts payable to MCS for these services were insignificant at December 31, 2021 and 2020. The Medical Center paid CH approximately \$750,000 and \$835,000 in 2021 and 2020, respectively, for premiums under its partially self-insured health insurance plan (see Note M).

Note G - SBA PPP Loan Payable

On April 7, 2020, the Medical Center was granted a \$2,580,600 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Medical Center was eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements, including maintaining employment levels during the covered period and using the funds for certain payroll, rent, and utility expenses. The loan balance was forgiven in full as of June 9, 2021, and the Medical Center was legally released from the loan obligation by the SBA. The loan forgiveness is included in nonoperating revenues on the statement of revenue, expenses, and changes in net position.

Note H - Unearned CARES Act Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds are to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. The rural health clinic testing grants are to be used to support coronavirus testing and related expenses in the rural health clinics. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied.

The Medical Center received \$1,808,860 and \$4,604,446 of CARES Act funding during 2021 and 2020, respectively. The Medical Center also received \$99,494 and \$100,000 of State of Kansas Frontline Hospital Worker Retention and SPARK (Strengthening People and Revitalizing Kansas) grants during 2021 and 2020, respectively. The Medical Center has determined based on current guidance from HHS and other grantors, that the conditions have been met for recognizing revenue of \$3,901,712 and \$902,227 of the grants in 2021 and 2020, respectively, related to the provider relief funds, rural health clinic testing, and SPARK funds. These amounts are included in nonoperating revenues or capital contributions on the statement of revenues, expenses, and changes in net position.

The remaining \$1,808,860 in provider relief funds has been recorded as unearned CARES Act revenue at December 31, 2021. The terms and conditions of the programs are complex and subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note I - Medicare Accelerated Payments

The CARES Act also provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Medical Center requested and received advances under this program in response to the coronavirus pandemic totaling \$6,121,590. The Medical Center paid off the \$6,121,590 in Medicare accelerated payments in March of 2021.

Note J - Long-Term Debt

Long-term debt consists of the following:

	<u>2021</u>	<u>2020</u>
2.00% to 4.00% Clay County, Kansas General Obligation Refunding and Improvement Bonds, Series 2016, issued on October 4, 2016, in the original amount of \$16,775,000	\$ 7,685,000	\$ 15,325,000
0.33% to 2.35% Clay County, Kansas Taxable General Obligation Refunding Bonds, Series 2021-B, issued on October 5, 2021, in the original amount of \$7,940,000	<u>7,940,000</u>	<u> </u>
	15,625,000	15,325,000
Net unamortized premium on 2016 bonds	350,568	742,598
Less current maturities of long-term debt	<u>(715,000)</u>	<u>(595,000)</u>
	<u>\$ 15,260,568</u>	<u>\$ 15,472,598</u>

On October 4, 2016, Clay County, Kansas, issued \$16,775,000 in General Obligation Refunding and Improvement bonds (the 2016 bonds). The proceeds of the 2016 bonds were used to refund the remaining principal of the Series 2006-A bond issue, and to pay for certain costs related to the issuance of the bonds, as well as to finance the expansion and renovation of the Medical Center. The bonds are due in annual installments of varying amounts with final maturity on October 1, 2046. In connection with the issuance of these bonds, the Medical Center signed a pledge of revenues agreement with the County. In this agreement, the Medical Center pledged to provide payments sufficient to make all debt service payments related to the bonds when they come due. Interest is payable on April 1 and October 1 of each year.

On October 5, 2021, Clay County, Kansas, issued \$7,940,000 in Taxable General Obligation Refunding Bonds, Series 2021-B, (the 2021 bonds) on behalf of the Medical Center. The proceeds of the 2021 bonds were used to (1) pay the costs related to issuance of the 2021 bonds and (2) advance refund \$7,045,000 of the 2016 bonds maturing during the years from 2026 through 2036 by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that will mature and pay interest in amounts and at times that will provide for payment of interest on the refunded 2016 bonds through October 1, 2024, and to redeem and pay the \$7,045,000 of refunded 2016 bonds on that date at redemption prices of 100 percent.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note J - Long-Term Debt - Continued

The refunding transaction decreased the total amount of future debt service requirements by \$569,751. This resulted in an economic gain of \$501,323. As a result of the transaction, a deferred refunding loss of \$422,239 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 715,000	\$ 365,490	\$ 1,080,490
2023	725,000	348,557	1,073,557
2024	725,000	329,740	1,054,740
2025	735,000	310,577	1,045,577
2026	750,000	284,685	1,034,685
Thereafter	<u>11,975,000</u>	<u>3,104,201</u>	<u>15,079,201</u>
	<u>\$ 15,625,000</u>	<u>\$ 4,743,250</u>	<u>\$ 20,368,250</u>

The following is a summary of changes in long-term debt:

Principal outstanding at January 1, 2020	\$ 15,835,000
2020 Payment of debt	<u>(510,000)</u>
Principal outstanding at December 31, 2020	15,325,000
2021 Debt obligations incurred	7,940,000
2021 Payment of debt	<u>(7,640,000)</u>
Principal outstanding at December 31, 2021	<u>\$ 15,625,000</u>

Total interest costs are summarized as follows:

	<u>2021</u>	<u>2020</u>
Total interest incurred	\$ 513,278	\$ 547,875
Financing costs on Series 2021-B bonds	138,187	
Amortization of bond premium	<u>(57,456)</u>	<u>(59,368)</u>
Interest expense	<u>\$ 594,009</u>	<u>\$ 488,507</u>

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note K - Risk Management

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

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

Note L - Pension Plan

The Medical Center sponsors the Clay County Medical Center Employees' Pension Plan (Plan), which is a defined contribution pension plan. Substantially all employees of the Medical Center are eligible to participate in the Plan after one year of employment. The Hospital contributes 3.5 percent of all eligible employee salaries toward each employee's respective retirement account. An eligible employee must be employed by the Hospital for no less than 12 months, work a minimum of 1,000 hours per year, and be at least 21 years old. Employees can voluntarily contribute up to the maximum allowed by the Internal Revenue Service. Contributions to the Plan made by an employee vest immediately and contributions to the Plan made by the Medical Center vest based upon the Plan's vesting schedule and the employee's years of service with the Medical Center.

For the years ended December 31, 2021 and 2020, the Hospital and covered employees' contributions to the Plan were as follows:

	<u>2021</u>	<u>2020</u>
Hospital contributions	\$ 407,811	\$ 368,917
Employee contributions	748,553	639,074

Note M - Employee Health Insurance

The Medical Center is partially self-insured for health insurance claims of its employees. The Medical Center has a reinsurance agreement that provides individual stop-loss coverage for incurred claims expense in excess of \$75,000 and \$50,000 for individual subscribers during the 2021 and 2020 plan years, respectively. In addition, the reinsurance company contracts with another insurance company to provide catastrophic stop-loss insurance coverage for incurred claims expense in excess of \$250,000 for individual subscribers. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an insurance company as its agent to process and settle claims.

The Medical Center has an equity interest in the company that provides individual stop-loss coverage for incurred claims expense in excess of \$75,000 and \$50,000 for individual subscribers during 2021 and 2020, respectively. The detail of this investment is included in Note F.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note M - Employee Health Insurance - Continued

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

	<u>2021</u>	<u>2020</u>
Estimated employee health insurance claims payable at beginning of period	\$ 96,150	\$ 203,000
Provision for employer's share of incurred claims expenses for the period, net of any reinsurance proceeds	1,378,563	1,306,283
Employee contributions	517,007	504,982
Payments made for claims, expenses, and reinsurance premiums	<u>(1,799,031)</u>	<u>(1,918,115)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 192,689</u>	<u>\$ 96,150</u>

Note N - Rental of Property

The Medical Center receives rent under operating lease agreements for physician private office space, a nursing home and extended care facility, and other space. Rental revenue under these agreements was approximately \$83,000 and \$135,000 for 2021 and 2020, respectively.

Note O - Other Related Parties

Clay County Medical Center Foundation (Foundation) was established in April 1987 and its Articles of Incorporation provide that its funds are for the benefit of the Medical Center. The Foundation's Board is independent of the Medical Center. The Medical Center received \$282,570 and \$278,788 in capital contributions from the Foundation in 2021 and 2020, respectively.

Note P - Deposits with Financial Institutions

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and that the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note P - Deposits with Financial Institutions - Continued

The carrying amount of the Medical Center's deposits with financial institutions was \$19,054,193 and the bank balance was \$19,192,219 at December 31, 2021. The bank balance is categorized as follows at December 31, 2021:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	\$ 866,526
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>18,325,693</u>
	<u><u>\$ 19,192,219</u></u>

Note Q - Right of Use Subscription Assets and Obligations

On January 14, 2020, the Medical Center entered into a hosting arrangement for a new computer system. The go-live date for the system was April 19, 2021. The contract is for a period of 7 years and includes payments of approximately \$1,896,000 for fixed technology fees and \$600,000 in various milestone payments during the implementation. Monthly fees of approximately \$31,000 are also included in the contract. As of December 31, 2020, the Medical Center paid approximately \$70,000 under the contract. These amounts were recorded as operating expenses during the year ended December 31, 2020.

Effective January 1, 2021, the Medical Center early adopted GASB Statement No. 96 *Subscription-Based Information Technology Arrangements* in regard to the computer system hosting arrangement. Under the provisions of GASB 96, the Medical Center recognized a right to use subscription asset and a corresponding subscription liability. The Medical Center's subscription asset and liability were initially measured at the present value of the subscription payments to be made during the subscription agreement's term at an interest rate of 3 percent. The subscription payments are to be made quarterly beginning on May 1, 2021 through November 1, 2026. The Medical Center is amortizing the subscription asset and the subscription liability over the term of the agreement.

A summary of the right to use subscription assets and obligations are as follows:

	<u>2021</u>	<u>2020</u>
Right of use subscription assets	\$ 1,689,385	\$ -
Less accumulated amortization	<u>195,871</u>	<u>-</u>
Right of use subscription assets, net	<u><u>\$ 1,493,514</u></u>	<u><u>\$ -</u></u>
Current portion of right of use subscription obligations	\$ 474,661	\$ -
Noncurrent portion of right of use subscription obligations	<u>783,322</u>	<u>-</u>
Total right of use operating subscription obligations	<u><u>\$ 1,257,983</u></u>	<u><u>\$ -</u></u>

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note Q - Right of Use Subscription Assets and Obligations – Continued

Scheduled principal and interest requirements to maturity for right of use lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 474,661	\$ 33,419	\$ 508,080
2023	188,594	19,486	208,080
2024	192,324	15,756	208,080
2025	198,183	9,897	208,080
2026	<u>204,221</u>	<u>3,859</u>	<u>208,080</u>
	<u>\$ 1,257,983</u>	<u>\$ 82,417</u>	<u>\$ 1,340,400</u>

Note R - Risks and Uncertainties

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

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note G, Note H, and Note I pertaining to the SBA PPP loan, the HHS grant funds, and the Medicare accelerated payments.

Note S - Subsequent Events

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

The Medical Center opened a Medicare Certified Rural Health Clinic in the town of Glasco, Kansas on January 12, 2022.

The Medical Center has purchased or has entered into several commitments for equipment in 2022. The most significant commitment is for the purchase of a new MRI machine for approximately \$950,000.

Supplementary Information

Clay County Medical Center
Net Patient Service Revenue
Year ended December 31,

	2021			2020
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 4,557,605	\$ 314,912	\$ 4,872,517	\$ 3,209,218
Nursery	84,739	289	85,028	60,287
Surgery, recovery, and treatment room	67,480	1,826,678	1,894,158	1,190,157
Labor and delivery	193,230	20,975	214,205	121,288
Medical and surgical supplies	464,425	422,613	887,038	831,685
Emergency room	16,474	4,815,621	4,832,095	4,451,214
Laboratory	674,545	6,404,338	7,078,883	5,800,162
Blood administration	44,989	96,720	141,709	62,213
Radiology	208,320	3,662,598	3,870,918	3,132,927
Nuclear medicine	11,324	628,125	639,449	529,649
Sonograms	15,547	453,975	469,522	373,915
Computerized tomography	588,712	6,343,793	6,932,505	5,444,754
Mammography		331,868	331,868	284,255
Vascular studies and cardiology	128,973	1,326,411	1,455,384	1,118,376
Clinics	9,238	672,989	682,227	1,023,762
Pharmacy	957,118	4,234,837	5,191,955	3,869,238
Intravenous therapy	80,296	176,866	257,162	240,393
Anesthesiology	90,078	1,731,721	1,821,799	1,549,987
Respiratory therapy	721,612	246,867	968,479	725,507
Physical therapy	210,709	1,230,540	1,441,249	1,305,512
Occupational therapy	168,895	236,735	405,630	314,267
Speech therapy	193,001	307,265	500,266	403,047
Hospice	22,518	2,053,807	2,076,325	2,431,150
Rural health clinic	402,749	4,453,661	4,856,410	3,966,499
Pulmonary rehabilitation		8,970	8,970	2,300
Gross patient service revenue	<u>\$ 9,912,577</u>	<u>\$ 42,003,174</u>	51,915,751	42,441,762
Adjustments to gross patient service revenue				
Contractual adjustments, discounts, and allowances			(20,958,173)	(16,287,680)
Provision for bad debts			(907,462)	(837,802)
Charity care			<u>(337,619)</u>	<u>(276,912)</u>
Net patient service revenue			<u>\$ 29,712,497</u>	<u>\$ 25,039,368</u>

Clay County Medical Center
Operating Expenses
Year ended December 31,

	2021			2020
	<u>Salaries and wages</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 1,156,180	\$ 930,540	\$ 2,086,720	\$ 1,861,458
Nursing administration	131,309	52,686	183,995	192,736
Nursery	31,752	1,748	33,500	39,985
Surgery, recovery, and treatment room	548,273	285,751	834,024	629,349
Surgery clinic				86
Labor and delivery	77,907	18,657	96,564	81,577
Medical and surgical supplies		180,381	180,381	184,376
Emergency room	1,201,657	276,064	1,477,721	1,313,714
Laboratory	533,736	972,358	1,506,094	1,475,409
Blood administration		53,235	53,235	38,297
Radiology	377,926	146,345	524,271	592,153
Nuclear medicine		112,190	112,190	89,636
Sonogram	33,303	21,030	54,333	52,058
Computerized tomography	102,050	25,837	127,887	156,904
Mammography	37,578	32,394	69,972	58,888
Vascular studies and cardiology	184,056	7,167	191,223	172,386
Clinics	193,952	216,838	410,790	244,015
Pharmacy	118,582	2,024,492	2,143,074	1,691,874
Intravenous therapy	6,233	17,786	24,019	210,732
Anesthesiology	378,157	143,377	521,534	492,989
Respiratory therapy	214,233	23,171	237,404	259,297
Physical, occupational, and speech therapy	815,866	50,250	866,116	789,957
Wellness	53,864	15,670	69,534	115,955
Hospice	772,871	848,698	1,621,569	1,745,476
Dietary	243,972	238,037	482,009	379,204
Operation of plant	129,602	886,705	1,016,307	968,457
Housekeeping	186,025	43,345	229,370	243,446
Laundry	83,535	18,182	101,717	77,731
Medical records	326,535	141,583	468,118	442,247
Fiscal services	1,002,982	492,826	1,495,808	1,420,272
Purchasing	88,622		88,622	95,409
Administrative services	1,256,231	1,472,834	2,729,065	1,908,157
Employee benefits		2,922,337	2,922,337	2,958,723
Depreciation and amortization		2,814,535	2,814,535	2,360,376
Rural health clinic	3,531,827	691,850	4,223,677	3,590,124
Pulmonary rehabilitation	1,963	54	2,017	852
340B	27	1,739,154	1,739,181	1,590,668
	<u>\$ 13,820,806</u>	<u>\$ 17,918,107</u>	<u>\$ 31,738,913</u>	<u>\$ 28,524,973</u>

**Clay County Medical Center
Summary of Insurance Coverage
December 31, 2021**

	<u>Policy number</u>	<u>Policy expiration date</u>	<u>Amount</u>
Property - All locations including Medical Arts Bldg	35978042	01/01/22	\$47,399,374
Workmen's compensation Employer liability	Certificate #8	01/01/22	Statutory 500,000/500,000
Crime - Employee Theft	EPP 0367804	01/01/22	100,000
Crime - Forgery/Alteration	EPP 0367804	01/01/22	10,000
Crime - Computer Fraud	EPP 0367804	01/01/22	100,000
Crime - Funds Transfer Fraud	EPP 0367804	01/01/22	100,000
Medical Center liability	HPL0021603	12/31/21	
Professional liability			200,000/600,000
Medical Center premises and operations			1,000,000/3,000,000
Professional employees other than physicians and residents			1,000,000/3,000,000
Employee benefits liability			250,000/250,000
Cyber liability			1,000,000/1,000,000
Proactive privacy breach			25,000/1,000,000
Professional liability - Kansas Health Care Stabilization Fund	HPL0021603	12/31/21	800,000/2,400,000
Employed providers	MPL11623	12/31/21	200,000/600,000
Health Care Stabilization Fund			800,000/2,400,000
Cyber liability			50,000/1,000,000
Trustees and officers' liability	EPP4917655	01/27/22	1,000,000/1,000,000
Auto	EPP 0367804	01/01/22	
Comprehensive and collision Liability			Full coverage 1,000,000
Employment Practices Liability	EPP4917655	01/27/22	1,000,000/1,000,000

**Clay County Medical Center
Patient Accounts Receivable
December 31,**

	<u>2021</u>	<u>2020</u>
Age of patients' accounts		
0 - 30 days	\$ 4,412,598	\$ 3,481,951
31 - 60 days	2,293,818	997,765
61 - 90 days	928,777	437,490
Over 90 days	<u>4,085,990</u>	<u>2,615,584</u>
	11,721,183	7,532,790
Less:		
Allowance for doubtful accounts	(2,332,109)	(2,369,565)
Allowance for contractual adjustments	<u>(3,852,176)</u>	<u>(2,229,744)</u>
	<u>\$ 5,536,898</u>	<u>\$ 2,933,481</u>

Clay County Medical Center
Balance in Depository Compared with Depository Security
December 31, 2021

	Farmers & Merchants State Bank Wakefield, <u>Kansas</u>	Girard National Bank Clay Center, <u>Kansas</u>
Bank balances December 31, 2021	\$ 5,846,970	\$ 116,526
Less F.D.I.C. coverage	<u>250,000</u>	<u>116,526</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 5,596,970</u>	<u>\$ -</u>
Market value of securities pledged	<u>\$ 5,604,772</u>	<u>\$ -</u>

Clay County Medical Center
Balance in Depository Compared with Depository Security - Continued
December 31, 2021

	Union State Bank Clay Center, <u>Kansas</u>	United Bank & Trust Clay Center, <u>Kansas</u>
Bank balances December 31, 2021	\$ 11,085,112	\$ 2,143,611
Less F.D.I.C. coverage	<u>250,000</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 10,835,112</u>	<u>\$ 1,893,611</u>
Market value of securities pledged	<u>\$ 11,966,329</u>	<u>\$ 3,055,082</u>

**Clay County Medical Center
Statistical Data
(Unaudited)
Year ended December 31,**

	<u>2021</u>	<u>2020</u>
Patient days		
Routine nursing care		
Acute care	2,026	1,649
Swing-bed care		
Skilled	1,456	1,108
Nursery	96	71
Discharges (excluding newborn)	687	595
Admissions (excluding newborn)	684	599
Number of licensed beds (excluding nursery)	25	25
Total patient days (excluding nursery)	3,482	2,757
Percent of occupancy (excluding nursery)	38.16%	30.21%
Medicare patient days		
Routine nursing care		
Acute care	1,368	1,160
Swing-bed care	1,360	1,022
Total	2,728	2,182
Medicaid patient days		
Routine nursing care		
Acute care	136	111
Nursery	32	28
Total	168	139
Rural health clinic visits	22,628	19,466

Clay County Medical Center
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program title</u>	<u>Assistance listing number</u>	<u>Pass-through entity identifying number</u>	<u>Amount passed through to subrecipients</u>	<u>Expenditures</u>
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	None	\$ -	\$ 4,475,409
COVID-19 HRSA claims reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	None	-	44,504
Passed through Healthworks KHA Foundation, Inc. Small Hospital Improvement Program	93.301	None		9,631
Total United States Department of Health and Human Services			-	4,529,544
United States Department of Treasury				
Passed through Kansas Department of Health and Environment COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	None		99,493
Total United States Department of Treasury			-	99,493
Total federal awards			\$ -	\$ 4,629,037

Clay County Medical Center
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Clay County Medical Center (Medical Center) under programs of the federal government, for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Medical Center.

Note 2 - Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles continued in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

The Medical Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. The Medical Center's federal expenditures do not include indirect administrative expenses.

Note 4 - Donated Personal Protective Equipment (unaudited)

The Medical Center received nonmonetary assistance of personal protective equipment (PPE) during the emergency period of the COVID-19 pandemic. The donated PPE was generally provided by donors without information about compliance or reporting requirements associated with federal assistance listing numbers. The donated PPE is not included in the Schedule. The value of the donated PPE is not reasonably estimable.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Clay County Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of business-type activities of Clay County Medical Center (Medical Center), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated September 2, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, and 2021-003 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Medical Center's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Medical Center's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wendling Noel Nelson & Johnson LLC". The signature is written in a cursive, flowing style.

Topeka, Kansas
September 2, 2022

**Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

Board of Trustees
Clay County Medical Center

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Clay County Medical Center's (Medical Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended December 31, 2021. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Medical Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Medical Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Medical Center's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance

resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Medical Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Medical Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Medical Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
September 2, 2022

Clay County Medical Center
Schedule of Findings and Question Costs of Federal Awards
Year ended December 31, 2021

Section I - Summary of Auditors' Results

Financial statements

Type of opinion expressed in the auditor's report issued Qualified

Internal control over financial reporting

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weakness(es)? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted ☐ Yes ☒ No

Federal awards

Internal control over financial reporting

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a) ☐ Yes ☒ No

Identification of major programs

<u>UFDA Number</u>	<u>Name of Program</u>
93.498	Provider Relief Fund

Dollar threshold used to distinguish between type A And type B programs \$750,000

Entry qualified as low-risk auditee ☐ Yes ☒ No

Section II - Financial Statement Findings

2021-001 Account receivable valuation

Identification: Significant deficiency in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, patient accounts receivable and patient revenue are reduced to net amounts expected to be received.

Condition: The allowance for contractual adjustments in accounts receivable are overstated at December 31, 2021.

Cause: The Medical Center has procedures in place to calculate the estimated contractual allowances in accounts receivable. Procedures include an analysis that is used for these contractual allowance based on current payment percentage information and other relevant factors. However, the procedures were not adequate to identify a misstatement in this allowance.

Clay County Medical Center
Schedule of Findings and Question Costs - Continued
Year ended December 31, 2021

Section II - Financial Statement Findings - Continued

Effect: An audit adjusting journal entry was proposed to decrease the contractual allowance in accounts receivable by approximately \$912,000 and increase net patient service by approximately \$912,000.

Repeat Finding: N/A

Recommendations: We recommend that management review the financial reporting process for estimating the contractual allowances in accounts receivable.

Views of Responsible Officials: We will continue to refine the analysis that is used to estimate the contractual allowances in accounts receivable.

2021-002 Estimated cost report settlements

Identification: Significant deficiency in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, settlements expected for unsettled cost reports reflect management's estimate of such amounts after allowing for possible adjustments by the Medicare administrative contractor.

Condition: The Medical Center is a critical access hospital (CAH) for purposes of the Medicare program. As such, services rendered to Medicare beneficiaries by the Medical Center are paid under cost reimbursement methodologies. The Medical Center is paid at tentative rates during the year with final settlement determined after submission of annual cost reports by the Medical Center. The laws and regulations that govern the Medicare program are extremely complex, subject to varying interpretations, and constantly changing.

Cause: The Medical Center has estimation procedures in place to estimate year-to-date cost report settlements; however, we proposed an audit adjusting entry to the estimated cost report settlement amounts that decreased net patient service revenue by approximately \$143,000. Because of the significance of Medicare cost report reimbursement to the financial statements, and because of the complexity of the laws and regulations governing the Medicare program, as is presently the case for virtually all CAHs, there is more than a remote risk that future financial statements could contain significant misstatements of estimated cost report settlements.

Effect: There is a reasonable possibility that future significant misstatements of the financial statements will not be prevented, detected, and corrected on a timely basis.

Repeat Finding: N/A

Recommendations: We recommend that the Medical Center continue to use a model to estimate the cost report settlement on a monthly basis and that the model be tested against the submitted Medicare cost report and updated as needed on an annual basis.

Views of Responsible Officials: We will continue to use a model to estimate the cost report settlement. Our goal is to use the model to make adjustments to estimated third-party payor settlements. In addition, it is our goal to have the model tested against the most recently submitted Medicare cost report on an annual basis.

**Clay County Medical Center
Schedule of Findings and Question Costs - Continued
Year ended December 31, 2021**

Section II - Financial Statement Findings - Continued

2021-003 Cash reconciliation process

Identification: Significant deficiency in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, cash is recorded on an accrual basis. The Medical Center uses enterprise fund accounting, in which revenues and expenses are recognized using the economic resources measurement focus.

Condition: Cash was overstated at December 31, 2021.

Cause: The Medical Center has procedures in place to reconcile cash on a monthly basis. Procedures include reconciling bank statement activity to cash balances in the general ledger. However, due to nature in which bank deposits are posted to cash clearing accounts in the general ledger, the procedures were not adequate to identify a misstatement in cash.

Effect: An audit adjusting journal entry was proposed to decrease cash by \$400,000, which decreased net patient service by \$400,000.

Repeat Finding: N/A

Recommendations: We recommend that management prioritize the review of the reconciliation of the cash clearing accounts and cash on a more timely basis.

Views of Responsible Officials: We will review the Medical Center's cash clearing and bank reconciliation process to determine if there is a more efficient and effective manner in which cash receipts can be posted.