Independent Auditor's Report and Financial Statements

Hospital District #1 of Crawford County, Kansas

December 31, 2021 and 2020

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Independent Auditor's Report

The Board of Trustees
Hospital District #1 of Crawford County, Kansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Hospital District #1 of Crawford County, Kansas (Hospital) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital'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 Hospital 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 Hospital District #1 Crawford County Foundation (Foundation), a component unit of the Hospital based on the nature and significance of the relationship between the Hospital and the Foundation. Although the Hospital 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 $361,000 and $297,000, respectively; and there would be an increase in component unit net assets of approximately $64,000 and $28,000 in 2021 and 2020, respectively.

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 Comptroller 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 Hospital 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.

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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 Hospital'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 and *Government Auditing Standards* 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 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 the 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

The Hospital 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 Hospital's basic financial statements. The accompanying information on pages 20 through 24 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, information on pages 20 through 24 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 25 is presented solely as supplementary information. This data has been summarized from Hospital 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 August 4, 2022, on our consideration of the Hospital'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 Hospital'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 Hospital's internal control over financial reporting and compliance.

Wendling Noe Nolan & Johnson LLC

Topeka, Kansas
August 4, 2022

Financial Statements

Hospital District #1 of Crawford County, Kansas
Statements of Net Position
December 31,

Assets and Deferred Outflows of Resources

	2021	2020
Current assets		
Cash and invested cash	$ 5,395,154	$ 12,971,983
Patient accounts receivable, net of allowance for doubtful accounts of $1,028,000 in 2021 and $854,000 in 2020 (Note A4)	3,866,812	2,283,691
Accounts receivable - other	524,392	399,011
Estimated settlements due from third-party payors (Note B)		302,000
Inventories (Note A5)	605,508	518,601
Prepaid expenses	283,810	266,188
Assets whose use is limited - required for current liabilities (Note D)	5	4
Total current assets	10,675,681	16,741,478
Assets whose use is limited		
By Board of Trustees (Note C)	1,336,583	1,017,047
By donor for capital equipment (Note C)	975,000	975,000
By bond resolution (Note D)	804,177	833,161
	3,115,760	2,825,208
Less amounts required for current liabilities	5	4
Noncurrent assets whose use is limited	3,115,755	2,825,204
Capital assets, net (Notes A6, E, I, and J)	5,715,209	5,931,127
Other assets		
Other investments, at cost	35,100	35,100
Total assets	19,541,745	25,532,909
Deferred outflows of resources		
Deferred outflows on advance refunding	352,934	412,084
Total assets and deferred outflows of resources	$ 19,894,679	$ 25,944,993

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2021	2020
Current liabilities		
Current portion of capital lease obligations (Note I)	$ -	$ 10,021
Current portion of long-term debt (Note J)	582,381	560,581
Accounts payable and other accrued liabilities	657,168	499,314
SBA PPP loan payable (Note F)		2,033,400
Accrued payroll and related deductions	201,576	269,741
Accrued paid time off (Note A10)	457,442	458,021
Estimated settlements due to third-party payors (Note B)	109,440	
Medicare accelerated payments (Note H)		4,033,591
Unearned CARES Act revenue (Note G)	1,368,097	4,231,758
Accrued interest payable	115,686	122,953
Total current liabilities	3,491,790	12,219,380
Long-term debt, less current portion (Note J)	9,026,778	9,677,855
Total liabilities	12,518,568	21,897,235
Net position (Note A9)		
Invested in capital assets, net of related debt	(3,893,949)	(4,317,329)
Restricted for capital equipment	975,000	975,000
Restricted for debt service (Note D)	804,177	833,161
Unrestricted	9,490,883	6,556,926
Total net position	7,376,111	4,047,758
Total liabilities and net position	$ 19,894,679	$ 25,944,993

Hospital District #1 of Crawford County, Kansas
Statements of Revenue, Expenses, and Changes in Net Position
Year ended December 31,

	2021	2020
Operating revenues		
Net patient service revenue	$ 19,103,010	$ 17,338,359
Other	990,080	1,425,287
Total operating revenues	20,093,090	18,763,646
Operating expenses		
Salaries and wages	10,542,831	9,648,857
Employee benefits	2,657,192	2,375,515
Purchased services and professional fees	2,972,449	2,369,193
Leases and rentals	175,922	176,175
Other supplies and expenses	4,154,993	3,647,447
Depreciation and amortization	975,433	1,059,038
Total operating expenses	21,478,820	19,276,225
Operating loss	(1,385,730)	(512,579)
Nonoperating revenues (expenses)		
Investment income	52,299	79,785
Noncapital grants and contributions		26,440
CARES Act grant revenue	1,446,832	297,846
SBA PPP loan forgiveness	2,033,400	
Gain on disposal of equipment	2,557	
Ad valorem taxes	507,565	485,050
Interest expense	(405,671)	(424,120)
Nonoperating revenues (expenses), net	3,636,982	465,001
Revenues in excess of (less than) expenses before capital contributions	2,251,252	(47,578)
Capital grants and contributions	1,077,101	251,896
Change in net position	3,328,353	204,318
Net position at beginning of year	4,047,758	3,843,440
Net position at end of year	$ 7,376,111	$ 4,047,758

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows
Year ended December 31,

	2021	2020
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 17,931,329	$ 17,019,209
Payments to or on behalf of employees	(13,268,767)	(12,325,114)
Payments for supplies and services	(7,241,166)	(6,097,340)
Other receipts and payments	864,699	1,358,020
Net cash used by operating activities	(1,713,905)	(45,225)
Cash flows from noncapital financing activities		
Ad valorem taxes	507,565	485,050
Proceeds from SBA PPP loan payable		2,033,400
Proceeds from CARES Act funding	1,589,071	4,231,758
Repayment of CARES Act funding	(1,999,465)	
Proceeds from Medicare accelerated payments		4,033,591
Repayment of Medicare accelerated payments	(4,033,591)	
Noncapital contributions		324,286
Net cash provided (used) by noncapital financing activities	(3,936,420)	11,108,085
Cash flows from capital and related financing activities		
Purchases of capital assets	(768,388)	(446,100)
Repayments on capital lease obligations	(10,021)	(128,079)
Repayment of long-term debt	(560,581)	(538,648)
Receipt of grants and contributions restricted for capital assets	70,666	251,896
Proceeds from disposal of assets	2,557	
Interest paid on long-term debt	(422,484)	(459,148)
Net cash used by capital and related financing activities	(1,688,251)	(1,320,079)
Cash flows from investing activities		
Investment income	52,299	79,785
Net cash provided by investing activities	52,299	79,785
Change in cash and cash equivalents	(7,286,277)	9,822,566
Cash and cash equivalents at beginning of year	15,797,191	5,974,625
Cash and cash equivalents at end of year	$ 8,510,914	$ 15,797,191
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 5,395,154	$ 12,971,983
Cash included in assets whose use is limited	3,115,760	2,825,208
	$ 8,510,914	$ 15,797,191

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows - Continued
Year ended December 31,

	2021	2020
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (1,385,730)	$ (512,579)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	975,433	1,059,038
Provision for bad debts	1,181,150	1,190,584
Changes in		
Patient receivables	(2,764,271)	(947,734)
Other receivables	(125,381)	(67,267)
Estimated settlements due to/from third-party payors	411,440	(562,000)
Inventories	(86,907)	(69,363)
Prepaid expenses	(17,622)	134,680
Accounts payable and accrued expenses	166,727	30,158
Accrued payroll and related deductions	(68,165)	(358,880)
Accrued paid time off	(579)	58,138
Net cash used by operating activities	$ (1,713,905)	$ (45,225)

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements
December 31, 2021 and 2020

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

A summary of the reporting entity and significant accounting policies of Hospital District #1 of Crawford County, Kansas, consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Hospital District #1 of Crawford County, Kansas (Hospital), is a municipal corporation operating an acute-care hospital located in Girard, Kansas, with a licensed bed capacity of 25 acute-care beds and 10 geriatric psych beds. The Hospital also provides outpatient and home health service to the community and surrounding areas. The Hospital is governed by an elected five-member Board of Trustees.

2. Basis of accounting

The Hospital uses enterprise fund accounting whereby revenues 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 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.

5. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined using the average cost method.

6. Capital assets

Capital asset acquisitions in excess of $5,000 (including assets recorded as capital leases) are capitalized and stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

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

7. Costs of borrowing

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

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

8. 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.

9. Net position

The net position of the Hospital is presented in the following four components:

- 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 for debt service - 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 Hospital.

- Restricted expendable net position - Restricted expendable net position is noncapital net position that must be used for the purchase of capital assets in accordance with donor restrictions.

- Unrestricted - Unrestricted net position is the remaining net position that does not meet the definitions of the other three components of net position.

10. Compensated absences

Hospital policies permit most employees to accumulate benefits (including paid time away from work to use for personal business, vacation, illness, and holidays) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

11. Operating revenues and expenses

The Hospital's 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, the Hospital's principal activity. Nonexchange revenues, including 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.

12. 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.

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

13. Charity care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

14. Ad valorem taxes

The Hospital receives financial support from ad valorem taxes. The ad valorem taxes are used for the purchase of capital assets. Ad valorem taxes are assessed in November of each year and are available for use by the Hospital in the following year.

15. Income taxes

The Hospital is classified as a political subdivision under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 and is not required to file federal income tax returns.

16. Cash and cash equivalents

The Hospital considers all cash and invested cash, including any amounts included in assets whose use is limited, to be cash equivalents for the purposes of the cash flow statement.

17. Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform with the 2021 presentation. These reclassifications had no impact on previously reported net position or the change in net position.

Note B - Reimbursement Programs

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of management's estimate of the 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 acute care services and skilled nursing swing-bed services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Inpatient geriatric psychology services are paid based on prospectively determined per diem rates. Home health and other physician services rendered to Medicare beneficiaries are paid based on prospectively determined rates.

The Hospital is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital'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 Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2019.

Note B - Reimbursement Programs - Continued

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital 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-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:

	2021	2020
Gross patient service revenue	$ 36,851,840	$ 32,830,152
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(16,457,974)	(14,176,911)
Provision for bad debts	(1,181,150)	(1,190,584)
Charity care	(109,706)	(124,298)
Net patient service revenue	$ 19,103,010	$ 17,338,359

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2021 and 2020, was $109,706 and $124,298, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost reports, was $62,212 and $69,658 for 2021 and 2020, respectively.

Note C - Assets Whose use is Limited by Board of Trustees and Donors

Assets whose use is limited by Board of Trustees and donors consist of invested cash and certificates of deposit which are to be used for replacement of capital assets or for the purchase of additional capital assets. The funds designated by the Board may be used for other purposes by action of the Board of Trustees.

Note D - Assets Whose use is Limited by Bond Resolution

Assets whose use is limited by bond resolution at December 31, 2021 and 2020, consist of required accounts to be maintained by the Hospital under the terms of the Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016 and Refunding Revenue Bonds, Series 2017 resolutions (see Note J).

Note D - Assets Whose use is Limited by Bond Resolution - Continued

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

	2021	2020
Debt service account - Series 2016 and 2017	$ 5	$ 4
Debt service reserve fund - Series 2017	804,172	833,157
	804,177	833,161
Less amounts required for current liabilities	5	4
	$ 804,172	$ 833,157

Under the terms of the Series 2017 bond resolution, the debt service account is to be used for payment of principal and interest on the bonds. The debt service reserve account is to be used to prevent any default in the payment of principal and interest on the bonds.

Note E - Capital Assets

Hospital capital asset additions, retirements, and balances are as follows:

	2021			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land and land improvements	$ 927,802	$ -	$ -	$ 927,802
Buildings	9,994,156			9,994,156
Fixed equipment	7,181,773		(436)	7,181,337
Major movable equipment	7,743,365	678,193	(95,851)	8,325,707
Leasehold improvements	133,366	267,215		400,581
Projects in progress	185,893	(185,893)		
Totals at historical cost	26,166,355	759,515	(96,287)	26,829,583
Less accumulated depreciation and amortization				
Buildings	7,745,906	261,869		8,007,775
Fixed equipment	4,801,528	296,119	436	5,097,211
Major movable equipment	7,001,346	403,844	95,851	7,309,339
Leasehold improvements	686,448	13,601		700,049
	20,235,228	975,433	96,287	21,114,374
Capital assets, net	$ 5,931,127	$ (215,918)	$ -	$ 5,715,209

	2020			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land and land improvements	$ 927,802	$ -	$ -	$ 927,802
Buildings	9,994,156			9,994,156
Fixed equipment	7,181,773			7,181,773
Major movable equipment	7,480,891	310,952	(48,478)	7,743,365
Leasehold improvements	133,366			133,366
Projects in progress		185,893		185,893
Totals at historical cost	25,717,988	496,845	(48,478)	26,166,355
Less accumulated depreciation and amortization				
Buildings	7,420,927	324,979		7,745,906
Fixed equipment	4,497,020	304,508		4,801,528
Major movable equipment	6,637,238	412,586	48,478	7,001,346
Leasehold improvements	669,483	16,965		686,448
	19,224,668	1,059,038	48,478	20,235,228
Capital assets, net	$ 6,493,320	$ (562,193)	$ -	$ 5,931,127

Note F - SBA PPP Loan Payable

On April 28, 2020, the Hospital was granted a $2,033,400 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Hospital received loan forgiveness of the entire loan amount on June 3, 2021, and has recognized this forgiveness as nonoperating revenue in 2021.

Note G - 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 Hospital received $1,589,071 and $4,429,604 of CARES Act funding during 2021 and 2020, respectively. The Hospital has determined based on current guidance from HHS that the conditions have been met for recognizing revenue of $1,446,832 and $297,846 in 2021 and 2020, respectively, related to the provider relief funds. These amounts are included in nonoperating revenues. The remaining $1,368,097 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.

Note H - 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 May 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $4,033,591. The Hospital paid off the $4,033,591 in Medicare accelerated payments in April of 2021.

Note I - Leases

The Hospital leased certain property and equipment under long-term lease arrangements. All outstanding capital lease obligations were satisfied in 2021.

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

Principal outstanding at January 1, 2020	$ 138,100
2020 payments on capital lease obligations	(128,079)
Principal outstanding at December 31, 2020	10,021
2021 payments on capital lease obligations	(10,021)
Principal outstanding at December 31, 2021	$ -

Note I - Leases - Continued

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense under operating leases was approximately $176,000 in 2021 and 2020, respectively.

In March of 2021, the Hospital entered into an agreement for the use of licensed software including electronic health records technology. The contract is for a period of 7 years. The monthly support fees in the agreement are $28,193 for a total of approximately $2,368,000 over the contract term. The Hospital has classified the obligation as an operating lease based on the terms of the agreement.

The following is a schedule by year of future minimum lease payments under operating leases, including the licensed software agreement, as of December 31, 2021, that have initial or remaining lease terms in excess of one year:

2022	$ 439,164
2023	439,164
2024	439,164
2025	439,164
2026	354,224
Thereafter	533,957
	$ 2,644,837

Note J - Long-Term Debt

Hospital long-term debt consists of the following:

	2021	2020
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016, issued on March 30, 2016, in the original amount of $2,605,000, variable interest rate of 2.93%	$ 2,223,669	$ 2,284,250
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2017, issued on December 28, 2017, in the original amount of $8,775,000, interest rate of 4.00%	7,025,000	7,525,000
	9,248,669	9,809,250
Net unamortized bond premium	360,490	429,186
Less current maturities	(582,381)	(560,581)
	$ 9,026,778	$ 9,677,855

The Series 2016 refunding revenue bonds were issued for the purpose of refunding the Series 2009B bonds. The Series 2016 refunding revenue bonds are due in annual installments of varying amounts with final maturity on September 1, 2034. Interest is payable on September 1 of each year.

Note J - Long-Term Debt - Continued

The initial interest rate on the Series 2016 bonds is 2.93 percent. The rate will be adjusted on September 1, 2025, to the daily yield on 10-year U.S. Treasury obligations, plus 100 basis points, provided that such rate shall not exceed the maximum legal limit for interest rates under K.S.A. 10-1009, as amended.

On December 28, 2017, the Crawford County, Kansas Public Building Commission issued $8,775,000 in Refunding Revenue Bonds, Series 2017, (the 2017 bonds) on behalf of the Hospital. The proceeds of the 2017 bonds were used to (1) pay the costs related to issuance of the 2017 bonds, and (2) advance refund $8,540,000 of the 2009-A bonds maturing during the years from 2018 through 2032 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 2009-A bonds through September 1, 2019, and to redeem and pay the $8,540,000 of refunded 2009-A bonds on that date at redemption prices of 100 percent and 102 percent.

The refunding transaction decreased the total amount of future debt service requirements by $720,465. This resulted in an economic gain of $639,730. As a result of the transaction, a deferred refunding loss 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.

The following is a schedule of future maturities of long-term debt:

	Principal	Interest	Total
2022	$ 582,381	$ 347,058	$ 929,439
2023	604,234	324,405	928,639
2024	630,971	301,068	932,039
2025	653,102	276,337	929,439
2026	680,125	250,914	931,039
2027 - 2031	3,817,976	836,019	4,653,995
2032 - 2034	2,279,880	139,649	2,419,529
	$ 9,248,669	$ 2,475,450	$ 11,724,119

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

Principal outstanding at January 1, 2020	$ 10,347,898
2020 payments on long-term debt	(538,648)
Principal outstanding at December 31, 2020	9,809,250
2021 payments on long-term debt	(560,581)
Principal outstanding at December 31, 2021	$ 9,248,669

The provisions of the 2016 and 2017 Bond Indentures contain covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D) and require the establishment and maintenance of charge rates for Hospital services at such levels so that net revenues available for debt service of the Hospital will not be less than 115 percent of the annual debt service requirements on the Hospital's parity debt obligations.

Note K - Risk Management

The Hospital 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 Hospital 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 Hospital 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 renewed through March 27, 2022. The Hospital 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 risks disclosed elsewhere in these financial statements and notes thereto, the Hospital 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 Hospital purchases commercial insurance for these risks.

Note L - Deposits with Financial Institutions

Kansas statutes authorize the Hospital, 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 generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time and 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.

The carrying amount of the Hospital's deposits with financial institutions was $7,705,416 and the bank balances were $7,853,466 at December 31, 2021. The bank balances are categorized as follows at December 31, 2021:

Amount insured by the F.D.I.C., or collateralized with the Hospital's name	$ 667,845
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 Hospital's name)	7,185,621
	$ 7,853,466

Note M - Defined Contribution Pension Plan

The Hospital sponsors a defined contribution pension plan that provides pension benefits for substantially all of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The Hospital matches employee contributions up to 3 percent of compensation excluding bonuses. The employees can contribute up to the maximum allowed by the Internal Revenue Service. The employees are fully vested in Hospital contributions after five years of service.

Note M - Defined Contribution Pension Plan - Continued

For the years ended December 31, 2021 and 2020, the Hospital and covered employees made contributions to the plan as follows:

	2021	2020
Hospital contributions	$ 175,688	$ 162,674
Employee contributions	490,509	458,428

Note N - Budgetary Comparison

The Hospital legally adopted a budget for capital fund expenditures for the years ended December 31, 2021 and 2020. Actual capital fund expenditures for the year ended December 31, 2021, were $759,515 as compared to the legally adopted budgeted expenditures of $505,724. Actual capital fund expenditures for the year ended December 31, 2020, were $496,485 as compared to the legally adopted budgeted expenditures of $488,365.

Note O - Related Party Transactions

Hospital District #1 Crawford County Foundation (Foundation) was established in September 1999. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Hospital. The Foundation donated $16,381 and $34,847 in capital contributions to the Hospital during the years ended December 31, 2021 and 2020, respectively.

The Hospital participates in the 340(B) outpatient drug program. One of the pharmacies that the Hospital utilizes for the program is owned by a member of the Hospital's Board of Trustees. Approximately $70,000 and $55,000 was recognized as expense related to pharmacy services provided by the pharmacy in 2021 and 2020, respectively.

Note P - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated coronavirus (COVID-19) as a global pandemic. Patient volumes and related revenues for the Hospital's services were impacted during the latter part of March 2020 and through year-end as a result of the pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses. While many restrictions have eased, the pandemic continues to impact Hospital 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 Hospital 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 F, Note G, and Note H pertaining to the SBA PPP loan, the HHS grants funds, and the Medicare accelerated payments.

Note Q - Subsequent Events

The Hospital 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.

Supplementary Information

Hospital District #1 of Crawford County, Kansas
Net Patient Service Revenue
Year ended December 31,

	2021			2020
	Inpatient	Outpatient	Total	Total
Acute care room	$ 1,089,376	$ 359,883	$ 1,449,259	$ 1,270,538
Swing-bed room	213,756		213,756	220,094
Intensive care room	272,314		272,314	392,951
Geriatric psych	1,733,278	184,580	1,917,858	2,300,541
Operating room	681,551	2,866,137	3,547,688	3,229,947
Orthopedic		147,545	147,545	135,655
Anesthesiology	101,536	480,744	582,280	553,094
Radiology	342,899	5,432,478	5,775,377	5,145,790
Laboratory	926,486	6,052,102	6,978,588	6,586,313
Respiratory therapy	77,780	46,242	124,022	100,561
Physical therapy	169,088	805,677	974,765	1,022,132
Occupational therapy	105,437	168,520	273,957	303,752
Speech therapy	5,168	7,112	12,280	9,096
Pulmonary Rehab		185,976	185,976	89,258
Medical supplies	169,479	1,350,419	1,519,898	549,527
Wound care		1,419,487	1,419,487	625,049
Pharmacy	1,407,953	1,659,265	3,067,218	2,995,655
Electrocardiology	127,389	903,912	1,031,301	825,757
Emergency room	85,569	3,035,456	3,121,025	2,380,859
Home health		513,066	513,066	599,395
Physician clinics	240,846	3,479,604	3,720,450	3,460,123
Community outreach		3,730	3,730	34,065
Gross patient service revenue	$ 7,749,905	$ 29,101,935	36,851,840	32,830,152
Contractual adjustments, discounts, and allowances				
Medicare			(6,413,502)	(5,935,167)
Medicaid			(2,772,270)	(2,460,317)
Blue Cross			(3,405,159)	(3,001,922)
Other			(3,867,043)	(2,779,505)
Provision for bad debts			(1,181,150)	(1,190,584)
Charity care			(109,706)	(124,298)
Net patient service revenue			$ 19,103,010	$ 17,338,359

Hospital District #1 of Crawford County, Kansas
Other Revenue
Year ended December 31,

	2021	2020
Clinic rental	$ 4,379	$ 3,980
Cafeteria sales	32,464	33,703
Grants received	32,726	51,278
340(B) drug program	890,896	1,298,043
Other	29,615	38,283
	$ 990,080	$ 1,425,287

Hospital District #1 of Crawford County, Kansas
Operating Expenses
Year ended December 31,

	2021			2020
	Salaries	Other	Total	Total
Nursing service	$ 606,729	$ 310,567	$ 917,296	$ 552,502
Intensive care	271,546	24,284	295,830	287,204
Swing-bed	300		300	5,928
Geriatric psych	972,238	174,567	1,146,805	1,016,816
Operating room	479,132	207,917	687,049	458,848
Orthopedic	536,798	53,282	590,080	567,997
Anesthesiology		479,734	479,734	445,886
Radiology	355,441	290,977	646,418	670,788
Laboratory	568,772	740,192	1,308,964	1,279,556
Respiratory therapy	53,581	13,967	67,548	64,176
Physical therapy	254,236	10,791	265,027	268,352
Occupational therapy	98,681	3,584	102,265	110,937
Speech therapy		5,673	5,673	4,266
Pulmonary Rehab	184,318	22,713	207,031	185,189
Central supply	77,805	945,084	1,022,889	716,234
Pharmacy	236,865	752,647	989,512	1,122,951
Emergency room	1,195,723	48,796	1,244,519	1,108,124
Home health	347,356	26,069	373,425	317,737
Wound care	16,987	239,924	256,911	167,713
Physician clinics	2,238,532	754,393	2,992,925	2,829,471
Depreciation and amortization		975,433	975,433	1,059,038
Employee benefits		2,657,192	2,657,192	2,375,515
Administrative and general	1,230,202	1,286,218	2,516,420	2,097,857
Plant operation and maintenance	167,238	579,080	746,318	632,514
Laundry and linen		65,238	65,238	55,593
Housekeeping	200,395	88,360	288,755	247,006
Dietary	197,574	152,749	350,323	332,435
Nursing administration	55,252	420	55,672	91,111
Medical records	185,678	23,162	208,840	196,732
Community outreach	11,452	2,976	14,428	7,749
	$ 10,542,831	$ 10,935,989	$ 21,478,820	$ 19,276,225

Hospital District #1 of Crawford County, Kansas
Balance in Depository Compared with Depository Security
December 31, 2021

	Girard National Bank	Community National Bank	Farmers National Bank
Bank balances December 31, 2021	$ 7,435,621	$ 207,702	$ 210,143
Less F.D.I.C. coverage	250,000	207,702	210,143
Balance in excess of F.D.I.C. coverage	$ 7,185,621	$ -	$ -
Market value of securities pledged	$ 8,391,215	$ -	$ -

Hospital District #1 of Crawford County, Kansas
Summary of Insurance Coverage
December 31, 2021

Federal Insurance Company	
Policy No. 3585-70-69, expiring March 27, 2022	
Property coverage	
Buildings and contents, $5,000 deductible	$ 25,374,783
Blanket BPP, $5,000 deductible	6,861,275
Business interruption	15,000,000
Computer malicious programming	1,000,000
Cincinnati Insurance Company	
Policy No. ENP 030 75 68, expiring March 27, 2024	
Employee dishonesty-blanket, $10,000 deductible	500,000
Computer fraud, $2,500 deductible	200,000
Funds transfer fraud, $2,500 deductible	200,000
Forgery, $10,000 deductible	200,000
Kansas Medical Mutual Insurance Company	
Policy No. HPL0015133, expiring March 27, 2022	
Professional hospital liability	
Professional claims	200,000/600,000
Kansas Healthcare Stabilization Fund coverage	800,000/2,400,000
Additional insureds	1,000,000/3,000,000
General liability	
Personal injury and property damage liability	1,000,000/3,000,000
Employee benefits liability, $1,000 deductible	250,000
Cincinnati Insurance Company	
Policy No. EMH 0433716, expiring March 27, 2022	
Directors' and officers' liability and trustee	
and fiduciary liability, $5,000 deductible	1,000,000
Employment practices liability, $10,000 deductible	1,000,000
KHA Workers' Compensation Fund, Inc.	
Certificate No. 83, expiring January 1, 2022	
Workers compensation	
Per accident	500,000
Per employee disease	500,000
Policy limit employee disease	500,000
Cincinnati Insurance Company	
Policy No. EBA0115804, expiring October 28, 2022	
Automobile liability, each accident	1,000,000
Automobile uninsured motorist, each accident	1,000,000
Automobile underinsured motorist, each accident	1,000,000

Hospital District #1 of Crawford County, Kansas
Statistical Data
(Unaudited)
Year ended December 31,

	2021	2020
Patient days		
Acute	1,143	1,150
Swing-bed	379	398
Total inpatient	1,522	1,548
Geriatric psych	1,779	2,229
Outpatient visits	17,448	17,293
Discharges		
Acute	392	402
Geriatric psych	226	240
Average length of stay		
Acute	2.9	2.9
Geriatric psych	7.9	9.3
Beds		
Acute	25	25
Geriatric psych	10	10
Occupancy percent inpatient	16.68%	16.96%
Occupancy percent geriatric psych	48.74%	61.07%

Hospital District #1 of Crawford County, Kansas
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through entity identifying number	Amount passed through to subrecipients	Expenditures
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	None	$ -	$ 2,245,455
Rural Health Clinic Vaccine Confidence Program	93.912	None		89,463
COVID-19 Testing for the Uninsured	93.461	None		20,227
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	None		10,381
COVID-19 Small Hospital Improvement Program	93.301	None		63,613
Total Small Hospital Improvement Program			-	73,994
Total United States Department of Health and Human Services			-	2,429,139
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		131,331
Total United States Department of Treasury			-	131,331
Total federal awards			$ -	$ 2,560,470

Hospital District #1 of Crawford County, Kansas
Notes to the Schedule of Expenditures of Federal Awards
Year ended 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 Hospital District #1 of Crawford County, Kansas (Hospital) 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 Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

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

Note 4 - Donated Personal Protective Equipment (unaudited)

The Hospital 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.

Wendling Noe Nelson & Johnson LLC
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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*

The Board of Trustees
Hospital District #1 of Crawford County, Kansas

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 the business-type activities of Hospital District #1 of Crawford County, Kansas (Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated August 4, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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*.

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Hospital's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Hospital'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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
August 4, 2022

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Trustees
Hospital District #1 of Crawford County, Kansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hospital District #1 of Crawford County, Kansas' (Hospital) 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 Hospital's major federal programs for the year ended December 31, 2021. The Hospital'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 Hospital 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 Hospital 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 Hospital'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 Hospital'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 Hospital'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

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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 Hospital'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 Hospital'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 Hospital'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 Hospital'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 Noe Nelson & Johnson LLC

Topeka, Kansas
August 4, 2022

Hospital District #1 of Crawford County, Kansas
Schedule of Findings and Questioned Costs
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	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	_X_ Yes	___ None reported
Noncompliance material to financial statements noted	___ Yes	_X_ No
Federal awards		
Internal control over major programs		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ Yes	_X_ 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	_X_ No

Identification of major programs

CFDA Number	Name of Program
93.498	Provider Relief Fund

Dollar threshold used to distinguish between type A and type B programs		$750,000
Entity qualified as low-risk auditee	___ Yes	_X_ No

Section II - Financial Statement Findings

2021-001 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 Hospital is a critical access hospital (CAH) for purposes of the Medicare program. As such, services rendered to Medicare beneficiaries by the Hospital are paid under cost reimbursement methodologies. The Hospital is paid at tentative rates during the year with final settlement determined after submission of annual cost reports by the Hospital. The laws and regulations that govern the Medicare program are extremely complex, subject to varying interpretations, and constantly changing.

Cause: The Hospital estimates year-to-date cost report settlements a few times a year. Because of the significance of Medicare cost report reimbursement to the financial statements and the fact that the Hospital does not regularly estimate the Medicare cost report settlements in its monthly 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 Hospital consider the costs and benefits of estimating the cost report settlement on a monthly basis.

Views of Responsible Officials: We will continue to use our past practice of estimating the cost report settlements on a periodic basis. We believe that the costs of a monthly process of estimating the cost report settlements outweigh the benefits at this time when preparing our monthly financial statements.

Section III - Federal Award Findings and Questioned Costs

None