

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Financial Statements and Supplementary Data

Years Ended December 31, 2021 and 2020

(Together With Independent Auditor's Report)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Table of Contents

Years Ended December 31, 2021 and 2020

|   | <u>Page<br/>Number</u> |
|---|------------------------|
| Independent Auditor's Report  | 1-3                    |
| Financial Statements:   |                        |
| Statements of Financial Position  | 4                      |
| Statements of Revenues, Expenses and Changes in Net Position  | 5                      |
| Statements of Cash Flows  | 6-7                    |
| Notes to Financial Statements   | 8-22                   |
| Supplementary Information, Schedule of Expenditures of Federal Awards   | 23-25                  |
| Independent Auditor's Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> | 26-29                  |
| Independent Auditor's Report on Compliance for<br>Each Major Federal Program and Report on Internal<br>Control over Compliance Required by the Uniform Guidance   | 30-32                  |
| Schedules of Findings and Questioned Costs  | 33-37                  |
| Corrective Action Plan  | 38-39                  |

## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Osborne County Memorial Hospital  
Osborne, Kansas:

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Osborne County Memorial Hospital, a component unit of Osborne County, Kansas, as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements which collectively comprise Osborne County Memorial Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Osborne County Memorial Hospital as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Osborne County Memorial Hospital and to meet our other ethical responsibilities, in accordance with the 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 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

(Continued)

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 Osborne County Memorial Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently know information that raise substantial doubt shortly thereafter.

### ***Auditor's Responsibility 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 opinions. 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, the *Kansas Municipal Audit and Accounting Guide* 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, the *Kansas Municipal Audit and Accounting Guide* 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 Osborne County Memorial 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 Osborne County Memorial 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.

(Continued)

### ***Required Supplementary Information***

Osborne County Memorial 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Osborne County Memorial Hospital's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards 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. Such 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, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2022 on our consideration of Osborne County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Osborne County Memorial Hospital's internal control over financial reporting and compliance.

*Dohman, Akerlund & Eddy, LLC*

Aurora, Nebraska  
September 16, 2022

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Financial Position

December 31, 2021 and 2020

| <u>Assets</u>   | <u>2021</u>          | <u>2020</u>       |
|---|----------------------|-------------------|
| Current assets:   |                      |                   |
| Cash  | \$ 4,845,238         | 1,949,598         |
| Restricted cash - COVID-19 funds  | 848,981              | 2,736,610         |
| Patient accounts receivable, net of contractual<br>adjustments and estimated uncollectibles<br>of \$694,237 in 2021 and \$592,681 in 2020 | 1,592,181            | 1,553,814         |
| Other receivables   | 303,439              | 72,308            |
| Taxes receivable  | 103,264              | 92,068            |
| Supplies inventory  | 130,316              | 176,732           |
| Prepaid expenses  | 173,359              | 46,743            |
| Estimated third-party payor settlements   | -                    | 904,926           |
| Total current assets  | <u>7,996,778</u>     | <u>7,532,799</u>  |
| Assets whose use is limited or restricted:  |                      |                   |
| Restricted by donors or grantors  | 290,429              | 410,652           |
| Interest in assets at<br>Greater Salina Community Foundation  | <u>16,518</u>        | <u>15,007</u>     |
| Total assets whose<br>use is limited or restricted  | <u>306,947</u>       | <u>425,659</u>    |
| Capital assets  | 18,689,212           | 18,224,378        |
| Less accumulated depreciation   | <u>2,631,367</u>     | <u>1,537,935</u>  |
| Net capital assets  | <u>16,057,845</u>    | <u>16,686,443</u> |
|   | <u>\$ 24,361,570</u> | <u>24,644,901</u> |

See accompanying notes to financial statements.

| <u>Liabilities and Net Position</u>             | <u>2021</u>          | <u>2020</u>       |
|---|----------------------|-------------------|
| Current liabilities:                            |                      |                   |
| Current maturities of capital lease obligation  | \$ -                 | 3,167             |
| Accounts payable and payroll withholding        | 162,039              | 144,095           |
| Accrued expenses - salaries, wages and benefits | 544,513              | 543,334           |
| Advanced grants - COVID-19 funds                | 848,981              | 2,736,610         |
| Estimated third-party payor settlements         | 65,000               | -                 |
| Total current liabilities                       | <u>1,620,533</u>     | <u>3,427,206</u>  |
| Net position:                                   |                      |                   |
| Net investment in capital assets                | 16,057,845           | 16,683,276        |
| Restricted expendable for:                      |                      |                   |
| Capital assets                                  | 102,546              | 265,893           |
| Operating activities                            | 187,883              | 144,759           |
| Unrestricted                                    | <u>6,392,763</u>     | <u>4,123,767</u>  |
| Total net position                              | <u>22,741,037</u>    | <u>21,217,695</u> |
|   | <u>\$ 24,361,570</u> | <u>24,644,901</u> |

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2021 and 2020

|   | <u>2021</u>          | <u>2020</u>       |
|---|----------------------|-------------------|
| Operating revenues:   |                      |                   |
| Net patient service revenue   | \$ 7,690,030         | 7,266,337         |
| Provision for uncollectible accounts                                      | <u>(146,555)</u>     | <u>(167,839)</u>  |
| Net patient service revenue,<br>less provision for uncollectible accounts | 7,543,475            | 7,098,498         |
| Other operating revenue   | <u>943,702</u>       | <u>945,618</u>    |
| Total operating revenues  | <u>8,487,177</u>     | <u>8,044,116</u>  |
| Operating expenses:   |                      |                   |
| Salaries and wages  | 4,162,877            | 3,651,236         |
| Employee benefits   | 725,730              | 727,650           |
| Supplies and other  | 3,188,081            | 3,292,851         |
| Depreciation  | <u>1,093,432</u>     | <u>841,698</u>    |
| Total operating expenses  | <u>9,170,120</u>     | <u>8,513,435</u>  |
| Operating loss  | <u>(682,943)</u>     | <u>(469,319)</u>  |
| Nonoperating revenues and expenses:                                       |                      |                   |
| Noncapital appropriations - Osborne County                                | 985,904              | 936,713           |
| Investment income   | 7,084                | 5,909             |
| Interest expense  | (10,924)             | (12,068)          |
| Loss on sale of capital assets  | -                    | (234,299)         |
| Paycheck Protection Program loan forgiveness                              | -                    | 511,600           |
| Grants - COVID-19 funds   | 1,466,740            | 191,108           |
| Noncapital grants and contributions                                       | <u>74,661</u>        | <u>174,626</u>    |
| Total nonoperating revenues and expenses                                  | <u>2,523,465</u>     | <u>1,573,589</u>  |
| Revenues in excess of expenses  | 1,840,522            | 1,104,270         |
| Transfer from (to) County   | (448,835)            | 17,423,656        |
| Capital grants and contributions  | <u>131,655</u>       | <u>249,518</u>    |
| Increase in net assets  | 1,523,342            | 18,777,444        |
| Net position, beginning of year   | <u>21,217,695</u>    | <u>2,440,251</u>  |
| Net position, end of year   | <u>\$ 22,741,037</u> | <u>21,217,695</u> |

See accompanying notes to financial statements.



OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

| <u>Increase in Cash</u>   | <u>2021</u>         | <u>2020</u>        |
|---|---------------------|--------------------|
| Cash flows from operating activities:                                   |                     |                    |
| Cash received:  |                     |                    |
| Patients and third-party payors   | \$ 8,475,034        | 5,780,789          |
| Other receipts, net   | 943,702             | 945,618            |
| Cash paid to employees  | (4,887,428)         | (4,378,945)        |
| Cash paid to suppliers and contractors                                  | <u>(3,461,068)</u>  | <u>(2,874,992)</u> |
| Net cash provided (used) by operating activities                        | <u>1,070,240</u>    | <u>(527,530)</u>   |
| Cash flows from noncapital financing activities:                        |                     |                    |
| Noncapital appropriations - Osborne County                              | 974,708             | 935,070            |
| Noncapital grants and contributions received                            | 74,661              | 174,626            |
| Grants - COVID-19 funds   | 1,120,562           | 2,927,718          |
| Grants - COVID-19 funds repaid  | (1,541,451)         | -                  |
| Proceeds from Paycheck Protection Program loan                          | -                   | 511,600            |
| Interest payments on trade payables                                     | <u>(10,886)</u>     | <u>(11,727)</u>    |
| Net cash provided by<br>noncapital financing activities                 | <u>617,594</u>      | <u>4,537,287</u>   |
| Cash flows from capital and related financing activities:               |                     |                    |
| Capital grants and gifts  | 131,655             | 249,518            |
| Capital expenditures  | (485,234)           | (117,758)          |
| Transfer to Osborne County  | (448,835)           | -                  |
| Principal payments on capital lease obligation                          | (3,167)             | (2,807)            |
| Proceeds from sale of capital assets                                    | -                   | 3,466              |
| Interest paid on capital lease obligation                               | <u>(38)</u>         | <u>(341)</u>       |
| Net cash provided (used) by<br>capital and related financing activities | <u>(805,619)</u>    | <u>132,078</u>     |
| Cash flows from investing<br>activities, interest income received       | <u>5,573</u>        | <u>3,962</u>       |
| Net increase in cash and cash equivalents                               | 887,788             | 4,145,797          |
| Cash, beginning of year   | <u>5,096,860</u>    | <u>951,063</u>     |
| Cash, end of year   | <u>\$ 5,984,648</u> | <u>5,096,860</u>   |
| Reconciliation of cash to the statements of financial position:         |                     |                    |
| Cash  | \$ 4,845,238        | 1,949,598          |
| Restricted cash - COVID-19 funds  | 848,981             | 2,736,610          |
| Cash in noncurrent assets   | <u>290,429</u>      | <u>410,652</u>     |
| Total cash  | <u>\$ 5,984,648</u> | <u>5,096,860</u>   |

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Cash Flows  
(Continued)  
Years Ended December 31, 2021 and 2020

| Reconciliation of Operating Loss to<br>Net Cash Provided or Used by Operating Activities       | <u>2021</u>         | <u>2020</u>      |
|--|---------------------|------------------|
| Operating loss   | \$ (682,943)        | (469,319)        |
| Adjustment to reconcile operating loss to net<br>cash provided (used) by operating activities: |                     |                  |
| Depreciation   | 1,093,432           | 841,698          |
| Provision for uncollectible accounts   | 146,555             | 167,839          |
| Construction in progress expensed amounts  | -                   | 38,199           |
| Expenses paid by County  | -                   | 374,559          |
| Decrease (increase) in:  |                     |                  |
| Patient accounts receivable  | (184,922)           | (994,470)        |
| Other receivables  | (231,131)           | (4,356)          |
| Supplies inventories   | 46,416              | (15,221)         |
| Prepaid expenses   | (126,616)           | 5,759            |
| Estimated third-party payor settlements  | 969,926             | (491,078)        |
| Increase (decrease) in:  |                     |                  |
| Accounts payable and payroll withholding   | 38,344              | 18,919           |
| Accrued expenses - salaries, wages and benefits  | <u>1,179</u>        | <u>(59)</u>      |
| Net cash provided (used) by operating activities   | <u>\$ 1,070,240</u> | <u>(527,530)</u> |

Supplemental Disclosures of Cash Flows Information

|  |          |                   |
|--|----------|-------------------|
| Capital asset additions included in accounts payable | \$ -     | 20,400            |
| Capital asset additions transferred from County      | <u>-</u> | <u>17,049,097</u> |

See accompanying notes to financial statements.

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

December 31, 2021 and 2020

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Osborne County Memorial Hospital (the Hospital) is located in Osborne, Kansas. The Hospital is a component unit of Osborne County, Kansas (the County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Osborne County area.

Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and County appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as County appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code.

Use of estimates

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

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Cash and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2021 and 2020.

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

The allowance for doubtful accounts for uninsured/self-pay patients was \$321,000 at December 31, 2021 and \$258,425 at December 31, 2020. The increase in the allowance for bad debts relates to the rise in private pay accounts receivable of approximately \$134,000 during 2021.

Supplies inventory

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

Assets whose use is limited or restricted:

Assets whose use is limited or restricted include (1) assets restricted by donors for capital acquisitions and specific operating activities, (2) assets set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, and (3) interest in assets at Greater Salina Community Foundation (note 6). Assets whose use is limited or restricted consist primarily of money market accounts.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Capital assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Major renewals and improvements are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the useful life of the respective assets are charged to expense as incurred. All capital assets other than land are depreciated or amortized over the estimated useful lives of the respective assets on the straight-line method. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Useful lives are determined using the general guidelines set forth in the American Hospital Association Guide for Estimated Useful lives of Depreciable Hospital Assets. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized. The following estimated useful lives are being used by the Hospital:

|                    | <u>Life in Years</u> |
|--------------------|----------------------|
| Land improvements  | 10-25                |
| Buildings          | 20-40                |
| Fixed equipment    | 5-20                 |
| Moveable equipment | <u>5-20</u>          |

Compensated absences

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

Net position

Net position of the Hospital is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. The *restricted expendable* component consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The *unrestricted* net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Net patient service revenue

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

Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital estimates the cost associated with providing services under its charity care policy were \$1,816 and \$7,620 for the years ended December 31, 2021 and 2020, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs plus interest expense divided by gross operating revenue) to the gross charges forgone under its charity care policy.

Noncapital appropriations - Osborne County

The Hospital received approximately 9% and 10% of its financial support in 2021 and 2020, respectively, from noncapital appropriations from the County's property tax levy and 1% sales tax revenue.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes and 1% sales taxes is recognized in the year for which the taxes are levied.

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted net position balances.

Risk management

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

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

New accounting and reporting standard

On January 1, 2021, the Hospital adopted GASB Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This new statement requires interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Such interest costs will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The implementation of GASB 89 did not have any impact on the Hospital's financial statements.

(2) Net Patient Service Revenue

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

- **Medicare:** The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care and skilled swing-bed and most outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of actual cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2019.

The "Budget Control Act of 2011" requires, among other things, mandatory across the board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments. On March 27, 2020, the CARES Act temporarily exempted Medicare from the effects of sequestration. This exemption is in effect from May 1, 2020 through March 31, 2022. From April 1, 2022 to June 30, 2022, the exemption was revised and imposed a 1% sequestration reduction rate. After June 30, 2022, the exemption is fully expired.

- **Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. That add-on percentage may be rebased at some time in the future.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Approximately 75% and 76% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Net patient service revenue consists of the following for the years ended December 31:

|   | <u>2021</u>         | <u>2020</u>      |
|---|---------------------|------------------|
| Net patient service revenue:                              |                     |                  |
| Gross patient service revenue:                            |                     |                  |
| Medicare  | \$ 5,207,767        | 4,759,218        |
| Medicaid  | 437,474             | 438,499          |
| Commercial insurance and other                            | 2,595,516           | 2,077,604        |
| Uninsured/self-pay  | 208,614             | 182,001          |
| Charity care deductions                                   | <u>(1,858)</u>      | <u>(7,510)</u>   |
| Gross patient service revenue (after charity care)        | <u>8,447,513</u>    | <u>7,449,812</u> |
| Contractual adjustments:                                  |                     |                  |
| Medicare  | 378,990             | 548,511          |
| Medicaid  | (230,547)           | (210,996)        |
| Commercial insurance and other                            | <u>(905,926)</u>    | <u>(520,990)</u> |
| Total contractual adjustments                             | <u>(757,483)</u>    | <u>(183,475)</u> |
| Net patient service revenue                               | 7,690,030           | 7,266,337        |
| Provision for bad debts                                   | <u>(146,555)</u>    | <u>(167,839)</u> |
| Net patient service revenue, less provision for bad debts | <u>\$ 7,543,475</u> | <u>7,098,498</u> |

(Continued)



OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(3) COVID-19 Funds

In December 2019, a novel strain of the coronavirus (COVID-19) originated in Wuhan, China and spread to other countries, including the United States of America (U.S.). On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and on March 13, 2020 the President of the United States of America declared an emergency under sections 201 and 301 of the National Emergencies Act. Since this declaration, the Hospital has operated within the guidelines provided by both state and federal regulatory agencies. Additionally, many state and local governments instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions have resulted in a decrease in overall hospital service volumes as both hospital and physician elective procedures have been impacted. The U.S. Congress passed both the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide various relief programs and direct funds to both healthcare providers, such as the Hospital, and the general public to assist during the duration of the pandemic.

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various Provider Relief Funds (PRF) to distribute funds to healthcare providers. As of December 31, 2021 and 2020, the Hospital received a total of \$799,519 and \$2,736,610, respectively, in PRF. The terms and conditions associated with accepting the funds specifically state they can only be used to prevent, prepare for, and respond to coronavirus healthcare-related expenses or lost revenues that are attributable to the coronavirus. Recipients are required to file reports with HHS regarding the use of these funds for eligible purposes. Any unused funds are required to be returned to HHS.

The Hospital considers the receipt of the funds a voluntary nonexchange transaction and the incurrence of eligible coronavirus healthcare-related expenses or lost revenues attributable to the coronavirus to be eligibility requirements for accounting and financial reporting purposes. The \$3,536,129 of PRF were recorded as Advanced grants (liability). The liability is being derecognized and nonoperating revenues recognized, as the eligible requirements are determined to be met by the Hospital. The Hospital has recognized \$1,145,698 of grant income associated with the PRF as of December 31, 2021, while \$1,541,451 was repaid to HHS as the Hospital lacked qualifying expenses and lost revenues needed to keep all PRF. The unrecognized portion of the grant funds of \$848,981 are being reported as Restricted cash - COVID-19 funds and Advanced grants - COVID-19 funds and will be recognized upon meeting the terms and conditions specific to these grants.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Since the inception of the CARES Act, reporting guidance has continued to evolve and change, including significant changes affecting the guidance that had been applicable after to the Hospital's year-end of December 31, 2020. For financial statement reporting purposes, the Hospital has determined these continuing changes, even those that occurred during fiscal year 2021, to be on-going clarifications and has utilized the most currently published reporting guidance up to the date the financial statements were issued to determine COVID-19 expenses and lost revenues. The laws and regulations associated with the CARES Act funds are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also received grant funds from the State of Kansas and other sources totaling \$321,042 and \$191,108 related to COVID-19 during 2021 and 2020, respectively. The Hospital has fully recognized grant income for these amounts as of December 31, 2021 and 2020 associated with these grants.

(4) Deposits

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

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

At December 31, 2021 and 2020, \$5,341,039 and \$4,581,770 of the Hospital's bank balances of \$6,107,991 and \$5,183,206, respectively, were exposed to custodial credit risk as follows:

|  | <u>2021</u>         | <u>2020</u>      |
|--|---------------------|------------------|
| Uninsured and uncollateralized   | \$ -                | -                |
| Uninsured but collateralized with securities<br>held by pledging financial institution's<br>trust department or agent in the Hospital's name | <u>5,341,039</u>    | <u>4,581,770</u> |
|  | \$ <u>5,341,039</u> | <u>4,581,770</u> |

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

The carrying amounts of deposits shown on the previous page are included in the balance sheet as follows:

|   | <u>2021</u>         | <u>2020</u>      |
|---|---------------------|------------------|
| Carrying value, deposits                          | \$ <u>5,984,648</u> | <u>5,096,860</u> |
| Included in the following balance sheet captions: |                     |                  |
| Cash in current assets                            | \$ 4,894,700        | 1,949,598        |
| Restricted cash in current assets                 | 799,519             | 2,736,610        |
| Restricted by donors – noncurrent assets          | <u>290,429</u>      | <u>410,652</u>   |
|   | \$ <u>5,984,648</u> | <u>5,096,860</u> |

(5) Patient Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and insured under third-party payor agreements.

Patient accounts receivable at December 31 consisted of the following:

|                                   | <u>2021</u>         | <u>2020</u>      |
|-----------------------------------|---------------------|------------------|
| Receivable from:                  |                     |                  |
| Medicare                          | \$ 1,150,244        | 1,201,395        |
| Medicaid                          | 116,054             | 149,449          |
| Self-pay                          | 361,557             | 227,795          |
| Blue Cross                        | 401,433             | 328,154          |
| Other third-party payers          | <u>257,130</u>      | <u>239,702</u>   |
| Total patient accounts receivable | <u>2,286,418</u>    | <u>2,146,495</u> |
| Allowances for:                   |                     |                  |
| Contractual adjustments           | 373,237             | 334,256          |
| Uncollectible accounts            | <u>321,000</u>      | <u>258,425</u>   |
| Total allowances                  | <u>694,237</u>      | <u>592,681</u>   |
| Net patient accounts receivable   | \$ <u>1,592,181</u> | <u>1,553,814</u> |

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(6) Interest in Assets at Greater Salina Community Foundation

The Hospital entered into an Organization Fund Agreement in 2012 with the Greater Salina Community Foundation (the Foundation). Changes in the beneficial interest in those assets are included in nonoperating revenue as investment income. The account experienced a net increase of \$1,511 and \$1,947 for the years ended December 31, 2021 and 2020, respectively.

(7) Capital Assets

Capital asset activity for the years ended December 31 was:

|  | <u>2020</u>          | <u>Additions</u>   | <u>Transfers/<br/>Retirements</u> | <u>2021</u>        |
|--|----------------------|--------------------|-----------------------------------|--------------------|
| <u>Historical costs</u>                    |                      |                    |                                   |                    |
| Land improvements                          | \$ 889,499           | -                  | -                                 | 889,499            |
| Buildings                                  | 11,534,434           | -                  | 32,900                            | 11,567,334         |
| Fixed equipment                            | 3,273,310            | -                  | -                                 | 3,273,310          |
| Moveable equipment                         | 2,494,235            | 464,834            | -                                 | 2,959,069          |
| Construction in progress - not depreciated | <u>32,900</u>        | <u>-</u>           | <u>(32,900)</u>                   | <u>-</u>           |
| Total historical costs                     | <u>18,224,378</u>    | <u>464,834</u>     | <u>-</u>                          | <u>18,689,212</u>  |
| <u>Less accumulated depreciation</u>       |                      |                    |                                   |                    |
| Land improvements                          | (49,720)             | (62,592)           | -                                 | (112,312)          |
| Buildings                                  | (362,434)            | (458,392)          | -                                 | (820,826)          |
| Fixed equipment                            | (173,380)            | (218,221)          | -                                 | (391,601)          |
| Moveable equipment                         | <u>(952,401)</u>     | <u>(354,227)</u>   | <u>-</u>                          | <u>(1,306,628)</u> |
| Total accumulated depreciation             | <u>(1,537,935)</u>   | <u>(1,093,432)</u> | <u>-</u>                          | <u>(2,631,367)</u> |
| Net capital assets                         | <u>\$ 16,686,443</u> | <u>(628,598)</u>   | <u>-</u>                          | <u>16,057,845</u>  |

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

|  | <u>2019</u>        | <u>Additions</u>  | <u>Transfers/<br/>Retirements</u> | <u>2020</u>        |
|--|--------------------|-------------------|-----------------------------------|--------------------|
| <u>Historical costs</u>                    |                    |                   |                                   |                    |
| Land improvements                          | \$ 77,937          | 889,499           | (77,937)                          | 889,499            |
| Buildings                                  | 1,296,911          | 11,534,434        | (1,296,911)                       | 11,534,434         |
| Fixed equipment                            | 573,241            | 3,273,310         | (573,241)                         | 3,273,310          |
| Moveable equipment                         | 2,361,512          | 1,602,876         | (1,470,153)                       | 2,494,235          |
| Construction in progress - not depreciated | <u>183,963</u>     | <u>63,148</u>     | <u>(214,211)</u>                  | <u>32,900</u>      |
| Total historical costs                     | <u>4,493,564</u>   | <u>17,363,267</u> | <u>(3,632,453)</u>                | <u>18,224,378</u>  |
| <u>Less accumulated depreciation</u>       |                    |                   |                                   |                    |
| Land improvements                          | (77,937)           | (49,720)          | 77,937                            | (49,720)           |
| Buildings                                  | (1,117,607)        | (370,279)         | 1,125,452                         | (362,434)          |
| Fixed equipment                            | (529,528)          | (176,155)         | 532,303                           | (173,380)          |
| Moveable equipment                         | <u>(2,151,642)</u> | <u>(245,544)</u>  | <u>1,444,785</u>                  | <u>(952,401)</u>   |
| Total accumulated depreciation             | <u>(3,876,714)</u> | <u>(841,698)</u>  | <u>3,180,477</u>                  | <u>(1,537,935)</u> |
| Net capital assets                         | \$ <u>616,850</u>  | <u>16,521,569</u> | <u>(451,976)</u>                  | <u>16,686,443</u>  |

A new hospital and physicians' clinic building (the Replacement Facility) was completed during 2020 and all Hospital operations were moved from the existing building to it during March of 2020. During 2017, the voters of the County approved a tax levy (general obligation of the County) to support and fund the repayment of a United States Department of Agriculture (USDA) direct loan of up to \$18,735,000 to fund the construction. Since the underlying USDA direct loan amounts were issued as general obligation bonds of the County, the debt is being reported as an obligation of the County and not the Hospital. The Hospital reported a transfer from the County of \$17,423,656 and corresponding building and equipment to record and capitalize the final completed construction costs funded with the USDA direct loan.

Although the tax levy was approved in an amount to cover the entire potential annual principal and interest payments required to service the USDA direct loan, the County anticipates requesting funds annually from the Hospital to cover the required annual debt service requirements. The Hospital anticipates using a combination of funds generated from its on-going operations and existing annual tax levy amounts to fund the County's annual required debt repayments. During 2021, the Hospital transferred \$448,835 to the County.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

The County's general obligation bonds issued in January 2020 for the USDA direct loan carry a fixed interest rate of 2.75% and a 30-year amortization period. Repayments of principal and interest are due annually beginning January 22, 2021 with the final payment due January 22, 2050. The final total costs of the project were less than originally estimated resulting in \$1,011,018 of excess funds at the close of the project. The County is going to repay the excess funds in January 2021 when it makes the first required installment of principal and interest. The following schedule presents the County's repayment requirements under the USDA direct loan and anticipated annual amounts to be requested from the Hospital:

| <u>Year Ending</u>        | <u>Principal</u>     | <u>Interest</u>  | <u>Total</u>      |
|---------------------------|----------------------|------------------|-------------------|
| 2021 excess funds applied | \$ 1,011,018         | -                | 1,011,018         |
| 2021                      | 408,849              | 516,624          | 925,473           |
| 2022                      | 421,504              | 476,166          | 897,670           |
| 2023                      | 433,095              | 464,575          | 897,670           |
| 2024                      | 445,005              | 451,425          | 896,430           |
| 2025                      | 455,960              | 441,634          | 897,594           |
| 2026 to 2030              | 2,480,530            | 2,006,643        | 4,487,173         |
| 2031 to 2035              | 2,841,020            | 1,646,307        | 4,487,327         |
| 2036 to 2040              | 3,253,909            | 1,233,013        | 4,486,922         |
| 2041 to 2045              | 3,726,432            | 761,401          | 4,487,833         |
| 2046 to 2050              | <u>3,257,678</u>     | <u>236,799</u>   | <u>3,494,477</u>  |
| Total                     | \$ <u>18,735,000</u> | <u>8,234,587</u> | <u>26,969,587</u> |

(8) Capital Lease Obligation

Capital lease obligation activity for the years ended December 31 was:

|   | <u>2020</u>  | <u>Additions</u> | <u>Reductions</u> | <u>2021</u> | <u>Current Portion</u> |
|---|--------------|------------------|-------------------|-------------|------------------------|
| Capital lease payable                                     | \$ 3,167     | <u>-</u>         | <u>(3,167)</u>    | -           | <u>-</u>               |
| Less current installments                                 | <u>3,167</u> |                  |                   | <u>-</u>    |                        |
| Capital lease obligations, excluding current installments | \$ <u>-</u>  |                  |                   | <u>-</u>    |                        |

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

|   | <u>2019</u>     | <u>Additions</u> | <u>Reductions</u> | <u>2020</u>  | <u>Current<br/>Portion</u> |
|---|-----------------|------------------|-------------------|--------------|----------------------------|
| Capital lease payable                                     | \$ 5,974        | <u>-</u>         | <u>(2,807)</u>    | 3,167        | <u>3,167</u>               |
| Less current installments                                 | <u>2,807</u>    |                  |                   | <u>3,167</u> |                            |
| Capital lease obligations, excluding current installments | \$ <u>3,167</u> |                  |                   | <u>-</u>     |                            |

The terms and due date of the Hospital's capital lease obligation at December 31, 2021 is as follows:

- Capital lease obligation, due in monthly installments of \$264, including interest at an implicit rate of 8%; paid off during 2021.

(9) Paycheck Protection Program Loan

The Paycheck Protection Program (PPP) was established by the CARES Act to provide a direct incentive for small businesses to keep their workers on payroll during the COVID-19 pandemic. The PPP loans are administered by the Small Business Administration (SBA) and provide direct loans to qualifying business entities through SBA-approved lending institutions (banks). The funds are intended to be used for paying employee wages and other critical expenses, such as mortgage interest and utilities. The PPP loans are two or five-year promissory notes with a 1% interest rate, with six months of deferred interest payments and require no collateral or personal guarantees. Additionally, the entire loan and applicable interest, or a portion thereof, can qualify for forgiveness if the proceeds are used for defined forgivable purposes, such as employee wages and benefits, that are incurred and paid within a covered time period and other stipulations are met.

The Hospital applied for and received a PPP loan totaling \$511,600 on April 20, 2020. The loan carried a 1% interest rate, with repayments deferred until loan forgiveness is submitted or 10 months after the end of the covered period of the loan forgiveness period (8 or 24 weeks) if forgiveness is not requested. The Hospital submitted for and received forgiveness of the loan on November 4, 2020. Accordingly, the Hospital has derecognized the loan liability of \$511,600 and recognized nonoperating income of the same amount.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(10) Medical Malpractice and Liability Coverage and Claims

The Hospital carries a professional liability policy (including malpractice) which provides \$200,000 of coverage per occurrence and \$600,000 aggregate coverage. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing healthcare services, it is possible that an event has occurred which will be the basis of a future material claim.

(11) Pension Plan

The Hospital maintains a 401(a) money purchase pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older who have completed one year of service and have been paid for 1,000 hours of service for the year. For any plan year in which the employee makes an elective deferral, the Hospital will make a 100% matching contribution, up to 3% of a participant's annual compensation. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. For all employees who terminated from the Hospital prior to April 1, 2009, benefits vested after two years of service with full vesting after six years of service. All employees who contribute at least one hour of service on or after April 1, 2009, vest after one year of service with full vesting after four years of service. Contributions actually made by plan members totaled \$139,766 and \$129,887 in 2021 and 2020, respectively. Hospital contributions totaled \$85,468 and \$77,490 in 2021 and 2020, respectively.

(Continued)



OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(12) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2015 enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$852,198 and \$876,878 for the years ended December 31, 2021 and 2020, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of \$736,139 and \$636,614 for the years ended December 31, 2021 and 2020, respectively, which is included in supplies and other in the accompanying statements of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at healthcare organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and changes to financial statement amounts related to the 340B Program could occur in the near term.

(13) Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 - Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

The Hospital has the following recurring fair value measurements:

- Equity securities of \$12,388 and \$11,255 are valued using quoted market prices (Level 1 inputs) at December 31, 2021 and 2020, respectively.
- Bonds of \$4,130 and \$3,752 are valued using a matrix pricing model (Level 2 inputs) at December 31, 2021 and 2020, respectively.

The above amounts are all included under the caption "Interest in assets at Greater Salina Community Foundation" in the statements of financial position.

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal Financial<br/>Assistance<br/>Listing/Federal<br/>CFDA Number</u> | <u>Pass<br/>Through<br/>Entity<br/>Identifying<br/>Number</u> | <u>Total<br/>Federal<br/>Expenditures</u> |
|--|---|---|---|
| United States Department of Health and Human Services:               |   |   |   |
| Direct Award:  |   |   |   |
| COVID-19 Provider Relief Fund  | 93.498  | N/A   | \$ <u>1,147,251</u>                       |
| Passed Through to the State of Kansas,                               |   |   |   |
| Department of Health and Environment:                                |   |   |   |
| COVID-19 Coronavirus Small   |   |   |   |
| Rural Hospital Improvement Program                                   | 93.301  | N/A   | 257,367                                   |
| Small Rural Hospital Improvement Program                             | 93.301  | N/A   | <u>12,570</u>                             |
|  |   |   | <u>269,937</u>                            |
| Total United States Department<br>of Health and Human Services       |   |   | <u>1,417,188</u>                          |
| United States Department of the Treasury:                            |   |   |   |
| Passed Through to the State of Kansas,                               |   |   |   |
| Department of Health and Environment:                                |   |   |   |
| SPARK Frontline Hospital   |   |   |   |
| Employee Retention Program   | 21.027  | N/A   | <u>63,676</u>                             |
| Total Expenditures of Federal Awards                                 |   |   | \$ <u>1,480,864</u>                       |

See accompanying notes to the schedule of expenditures of federal awards.

\* \* \* \* \*

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards activity of the Hospital under programs of the federal government for the year ended December 31, 2021. The accompanying schedule presents total expenditures in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in this schedule may differ from the amounts presented in, or used in, the preparation of the basic financial statements.

B. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal activity of the Hospital under programs of the federal government for the year ended December 31, 2021 and is presented on the accrued basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

C. Provider Relief Fund Reporting

Provider relief funds (PRF) are to be reported during four separate time periods. Period 1 reporting encompassed all PRF received from April 10, 2020 through June 30, 2020 with a measurement date for use of funds through June 30, 2021. Period 2 reporting includes all PRF received from July 1, 2020 through December 31, 2020 with a measurement date for use of funds through December 31, 2021. Period 3 reporting includes all PRF received from January 1, 2021 through June 30, 2021 with a measurement date for use of funds through June 30, 2022. Period 4 reporting includes all PRF received from July 1, 2021 to December 31, 2021 with a measurement date for use of funds through December 31, 2022. Period 5 reporting includes all PRF received from January 1, 2022 through June 30, 2022 with a measurement date for use of funds through June 30, 2023. Accordingly, the amounts included on the accompanying schedule of expenditures of federal awards are for PRF subject to Periods 1 and 2 reporting.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

As previously noted, the PRF reporting timeline for Period 1 use of funds runs from April 10, 2020 through June 30, 2021, while Period 2 use of funds runs from July 1, 2021 through December 31, 2021. This has resulted in the Hospital's recognition and reporting for financial statement purposes not matching with the PRF reporting timeline. A reconciliation of total expenditures of PRF and other awards to amounts recognized in the Hospital's financial statements is as follows:

Total PRF and other amounts included in the Expenditures of Federal Awards \$ 1,480,864

Amounts reflected in the audited financial statements, in the  
Statements of Revenues, Expenses and Changes in Net Position:

|   |                     |
|---|---------------------|
| Grants - COVID-19 programs FY2021                           | \$ 1,466,740        |
| Included in Noncapital grants and contributions FY2021      | 12,571              |
| Investment income - Provider relief funds FY2021 and FY2020 | <u>1,553</u>        |
|   | \$ <u>1,480,864</u> |

D. Indirect Cost Rate

The Hospital has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

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*

To Management and the Board of Trustees  
Osborne County Memorial Hospital  
Osborne, Kansas:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide* 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 Osborne County Memorial Hospital (the 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 September 16, 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) to determine the 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. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control (2021-001 to 2021-004) that we consider to be material weaknesses.

\* \* \* \* \*

(Continued)

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 determination of financial statement amounts. 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 *Governmental Auditing Standards*.

## Hospital's Responses to Findings

*Government Auditing Standards* require the auditor to perform limited procedures on the Hospital's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

\* \* \* \* \*

## Other Reporting and Operating Comments

The following comments are directed not to deficiencies in internal control, but to our observations of the Hospital's operations and the financial reporting system in general:

### **MEDICARE COST REPORTING - REVIEW OF COST REPORT COST CENTERS AND STATISTICAL BASES**

We have recently noted the Hospital's Medicare Administrative Contractor (MAC) during its reviews/audits of submitted Medicare cost reports is requesting the facilities to provide approval letters for any unique cost centers and any non-standard statistical bases being utilized. If the facility cannot provide approval letters dated after May 1, 2010, the MAC is issuing a management letter stating the facility should either change to follow the prescribed methodologies on the cost reporting forms or request approvals for other methodologies being utilized.

We suggest the Hospital review the current cost centers and statistical bases being utilized and request approval for any deviations from the methodologies prescribed on the standard cost reporting forms. We also suggest as part of this process, the Hospital analyze any potential changes in its current cost reporting methodologies that could result in improved overall reimbursement. We would be pleased to assist the Hospital with this process if so desired.

(Continued)

## **FRAUD RISK ASSESSMENT**

Based on the answers provided to us by management during our completion of internal control questionnaires and other related interviews, we noted there is currently no written policy requiring the annual performance of a fraud risk assessment. Therefore, we suggest the Hospital adopt a formal written policy regarding performance of an annual fraud risk assessment on the Hospital's internal accounting controls. The written policy should provide specific procedures to be performed and a requirement to provide a written report to the Hospital's Board of Trustees regarding the procedures performed, the results and findings, and any recommendations for changes to improve the system.

## **NEW ACCOUNTING AND REPORTING STANDARDS**

The following new accounting standards will become effective soon and may impact how the Hospital reports certain transactions. We recommend the Hospital be aware of the reporting period these standards will become applicable for and begin the evaluation process to determine the impact they may have on the Hospital's financial reporting methodologies. Please contact us if you have any questions regarding these standards or require assistance with your review of them.

### **GASB Statement No. 87 - Leases**

In June 2017, the GASB issued Statement No. 87. This new statement requires a lessee to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term. The new standard, originally effective for fiscal years beginning after December 15, 2019, has been extended and is now effective for fiscal years beginning after June 15, 2021. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

### **GASB Statement No. 96 - Subscription-Based Information Technology Arrangements (SBITA)**

In May 2020, the GASB issued Statement No. 96. This new statement establishes that a SBITA results in the recognition of a right-to-use asset and a corresponding subscription liability and provides for capitalization criteria for outlays other than subscription payments, including implementation cost of a SBITA. The subscription liability should be initially measured as the present value of the subscription payments expected to be made during the subscription term. To the extent relevant, the standards for SBITA's are based on the standards established for GASB Statement No. 87, Leases, as amended previously discussed. The new standard is effective for fiscal years beginning after June 15, 2022 with earlier application encouraged.

(Continued)

## 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.

*Dohman, Akerlund & Eddy, LLC*

Aurora, Nebraska  
September 16, 2022



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

To Management and the Board of Trustees  
Osborne County Memorial Hospital  
Osborne, Kansas:

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Osborne County Memorial Hospital's (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (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.

(Continued)

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to on the previous page and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of 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 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 judgement 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 judgement 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 risk. 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 things, 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.

(Continued)

## 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 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 on a previous page 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.

### Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dohman, Akerlund & Eddy, LLC*

Aurora, Nebraska  
September 16, 2022

OSBORNE COUNTY MEMORIAL HOSPITAL

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued on whether the financial statements were prepared in accordance with U.S. GAAP: Unmodified opinion

Internal control over financial reporting:  
Material weakness(es) identified?   X   Yes        No  
Significant deficiency(ies) identified?        Yes   X   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 deficiency(ies) identified?        Yes   X   None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?        Yes   X   No

Identification of major programs:

| <u>Program Name</u>  | <u>CFDA</u>                       |
|--|-----------------------------------|
| COVID-19 Provider Relief Fund  | 93.498                            |
| Dollar threshold used to distinguish between type A and type B programs: | \$ <u>750,000</u>                 |
| Auditee qualified as low-risk auditee?                                   | <u>      </u> Yes <u>  X  </u> No |

(Continued)

## **SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT**

### **2021-001 MATERIAL AUDIT ADJUSTMENTS**

#### **Criteria**

Adequate system for reconciling general ledger control accounts and resolving any variances found and making adjustments necessary to appropriately state ending balances in Hospital financial statements.

#### **Condition**

During our audit procedures, we determined it necessary to propose a significant number of adjusting journal entries to appropriately state certain financial activity of the Hospital.

#### **Cause**

Currently, policies and processes are not in place requiring reconciliation of all balance sheet accounts on a monthly basis.

#### **Effect and recommendation**

The net effect of these proposed adjustments was material to the December 31, 2021 financial statements. We recommend management review current year audit adjusting journal entries and implement necessary year-end reconciling and review procedures to ensure these accounts are appropriately stated at year-end.

#### **Views of responsible officials and planned corrective actions**

Monthly reconciliation of all balance sheet accounts will be performed by the Hospital CFO and/or outside contracted accounting consultant. Year-end reconciling and review procedures will also be performed so the accounts are appropriately stated at year-end.

### **2021-002 SEGREGATION OF DUTIES**

#### **Criteria**

Appropriate segregation of duties are in place to ensure that errors or irregularities are prevented or detected in a timely manner by employees during the normal course of business.

#### **Conditions**

Not all major accounting areas have complete segregation of duties.

#### **Cause**

The Hospital has limited personnel available to completely segregate all duties.

#### **Effect and recommendation**

Lack of complete segregation of duties creates a higher risk of errors or irregularities not being prevented or detected in a timely manner. We suggest the Hospital continue to monitor and review key internal control areas where cost effective process changes can be implemented to lower overall risks of errors and irregularities occurring.

(Continued)

## Specific area and comments

### Cash receipts/accounts receivable (AR) processes

- The cash receipts listing prepared upon opening of the mail should be subsequently compared to cash receipts records, daily postings, etc. by personnel who have no access to cash receipts or AR system access.
- There are personnel in the cash receipts/AR area who have physical access to cash receipts and are either directly involved with the posting of AR payments or have the ability to post payments to the AR system. These same personnel also have the ability to record AR contractual adjustments, as well as bad debt and charity care write-offs. We recommend a review of these duties to determine if some of these functions can be segregated or if mitigating procedures can be performed to improve overall control functions for this area.
- The Hospital follows a formal policy requiring an approval process for both bad debt write-offs and charity care charge-offs. We suggest the Hospital also review actual bad debt write-offs and charity care charge-offs to assure only those amounts that were approved are written off.

### AR/Billing processes

- Personnel who perform billing services and answer patient questions regarding their statements should not have access to cash receipts or have the ability to post activity to patient accounts. We recommend a review of these duties to determine if functions can be segregated or if mitigating procedures can be performed to improve overall controls for this area.

### Cash disbursements/accounts payable (AP), purchasing, and inventory processes

- The AP agent has access, recording, and monitoring abilities. Specifically, the AP agent records AP transactions, initiates payments, can change master vendor files, and prepares the AP reconciliations to the general ledger. While the AP agent is not an authorized signer, controls in this area should be reviewed to determine where improvements can be made. We did note, as a mitigating control, the CEO reviews the AP master vendor list on an annual basis, approves new vendors through the standard purchase order process and reviews and matches invoice amounts listed before signing checks.
- The CFO is an authorized check signer and is not independent of cash receiving and purchase approval. It should be noted though dual signatures are required on checks to minimize this area of risk.
- Custody of checks after signature and before mailing is handled by an employee who is not independent of payable, disbursing, and general ledger functions.
- Personnel who are responsible for receipt, storage, and issuance of goods are not independent of responsibility for purchases, sales, and inventory records. Ideally, these functions would be performed by separate individuals.

(Continued)

### Payroll processing

- Personnel actually preparing and processing payroll have the ability to make payroll system master file changes, such as adding new employees, changes to wage rates, and adding employees to the payroll deposit listing used by the bank to make the payroll direct deposit. As a mitigating control procedure, the CEO reviews and signs off on all new wages and any wage changes. Additionally, wages are reviewed by the CEO as part of the normal monthly payroll sign off.
- Unclaimed or returned W-2 forms should be investigated by personnel independent of any other payroll functions.

### Views of responsible officials and planned corrective actions

The Hospital understands the importance and necessity of adequate segregation of duties. However, it is not cost effective to separate these duties and hire additional employees to accomplish the ideal level of segregation of duties. We continually review our processes and implement changes to the best of our abilities.

## 2021-003 RESTRICTED CONTRIBUTION TRACKING AND ACCOUNTING

### Criteria

Appropriate tracking of restricted contributions by imposed restrictions and subsequent accounting for expenditures of contributions is being maintained.

### Condition

During our audit work related to contributions received during the last several years, we noted confusion in appropriately tracking and accounting for them. Additional audit work was required to review the transactions and determine appropriate accounting treatment for financial statement reporting purposes. We suggest the Hospital review its current process to assure all contributions are immediately identified as restricted or unrestricted and then correctly tracked and accounted for through disposition of the restriction, if applicable. We would be pleased to provide management with guidance on accounting for restricted contributions if so desired.

### Cause

Currently, policies are not in place to properly track and account for restricted contributions on a periodic basis.

### Effect and recommendation

Audit adjusting journal entries were needed in order to reconcile prior year's restricted net assets to current year ending balances via review of all 2021 contribution activity. We suggest the Hospital review its current process to assure all contributions are immediately identified as restricted or not and then correctly tracked and accounted for through disposition of the restriction. We would be pleased to provide management with guidance on accounting for restricted contributions if so desired.

### Views of responsible officials and planned corrective actions

The Hospital does immediately identify if contributions are restricted or not. However, we will improve our process for making sure the tracking of the restricted contribution is completed. This will be accomplished by the joint efforts of the Hospital CFO and outside contracted accounting consultant.

(Continued)

## 2021-004 FINANCIAL STATEMENT PREPARATION - GAAP

### Criteria

Management has ability to prepare financial statements in accordance with GAAP.

### Condition

The preparation of the Hospital's year-end financial statements in accordance with GAAP, which would include all required footnote disclosures, requires management to possess sufficient knowledge and expertise to select and apply appropriate accounting principles. As is a common situation at many small entities, management does not currently possess the qualifications to accomplish these responsibilities completely on their own.

### Cause

Limited personnel available with detail GAAP knowledge to prepare year-end financial statements.

### Effect and recommendation

Year-end financial statements, prepared in accordance with GAAP, are currently prepared by Hospital management with significant assistance from the auditors. We suggest management review its current processes and determine whether it is a cost beneficial goal to be able to prepare year-end financial statements in accordance with GAAP with little or no assistance.

### Views of responsible officials and planned corrective actions

The Hospital began the process of the Hospital CFO and outside contracted accounting consultant working together after the FY2020 audit was completed (August 2021) to ensure accurate financial statements. Major improvement has been noted; however, the Hospital is willing to increase the services of the outside contracted accounting consultant to ensure the financial statements are in accordance with GAAP.

## **SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None



September 16, 2022

## **CORRECTIVE ACTION PLAN**

Osborne County Memorial Hospital respectfully submits the following corrective action plan for the year ended December 31, 2021.

Name and address of the Independent accounting firm:  
Dohman, Akerlund, & Eddy, LLC  
PO Box 470  
Aurora, NE 68818

Audit period: As of and for the year ended December 31, 2021

The findings from the 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **Section II – Findings - Financial Statement Audit**

#### **MATERIAL WEAKNESSES**

##### **2021-001 MATERIAL AUDIT ADJUSTMENTS**

###### **Effect and recommendation**

The net effect of proposed adjustments were material to the December 31, 2021 financial statements. The auditors recommend management review current year audit adjusting journal entries and implement necessary year-end reconciling and review procedures to ensure these accounts are appropriately stated at year-end.

###### **Views of responsible officials and planned corrective actions**

Monthly reconciliation of all balance sheet accounts will be performed by the Hospital CFO and/or outside contracted accounting consultant. Year-end reconciling and review procedures will also be performed so the accounts are appropriately stated at year-end.

##### **2021-002 SEGREGATION OF DUTIES**

###### **Effect and recommendation**

Lack of complete segregation of duties creates a higher risk of errors or irregularities not being prevented or detected in a timely manner. The auditors suggest the Hospital continue to monitor and review key internal control areas where cost effective process changes can be implemented to lower overall risks of errors and irregularities occurring.

###### **Views of responsible officials and planned corrective actions**

The Hospital understands the importance and necessity of adequate segregation of duties. However, it is not cost effective to separate these duties and hire additional employees to accomplish the ideal level of segregation of duties. We continually review our processes and implement changes to the best of our abilities.

##### **2021-003 RESTRICTED CONTRIBUTION TRACKING AND ACCOUNTING**

###### **Effect and recommendation**

Audit adjusting journal entries were needed in order to reconcile prior year's restricted net assets to current year ending balances via review of all 2021 contribution activity. The auditors suggest the Hospital review its current process to assure all contributions are immediately identified as restricted or not and then correctly tracked and accounted for through disposition of the restriction.

Views of responsible officials and planned corrective actions

The Hospital does immediately identify if contributions are restricted or not. However, we will improve our process for making sure the tracking of the restricted contribution is completed. This will be accomplished by the joint efforts of the Hospital CFO and outside contracted accounting consultant.

**2021-004 FINANCIAL STATEMENT PREPARATION – GAAP**

Effect and recommendation

Year-end financial statements, prepared in accordance with GAAP, are currently prepared by Hospital management with assistance from the auditors. The auditors suggest management review its current processes and determine whether it is a cost beneficial goal to be able to prepare year-end financial statements in accordance with GAAP with little or no assistance.

Views of responsible officials and planned corrective actions

The Hospital began the process of the Hospital CFO and outside contracted accounting consultant working together after the FY2020 audit was completed (August 2021) to ensure accurate financial statements. Major improvement has been noted; however, the Hospital is willing to increase the services of the outside contracted accounting consultant to ensure the financial statements are in accordance with GAAP.

**Section III –Findings - Federal Award Programs Audit and Questioned Costs**

No findings were presented.

For any questions regarding this plan, please call Linda Murphy at (785) 346-2121.

Sincerely,  
Osborne County Memorial Hospital



Linda Murphy  
Chief Financial Officer/Business Office Manager