Independent Auditor's Report and Financial Statements

Hospital District #1 of Crawford County, Kansas

December 31, 2022 and 2021

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Hospital District #1 of Crawford County, Kansas (Hospital) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, except for the effects on the financial statements of the omission described in the following paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of December 31, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The 2022 and 2021 financial statements referred to above do not include financial data of the Hospital District #1 Crawford County Foundation (Foundation), a component unit of the Hospital based on the nature and significance of the relationship between the Hospital and the Foundation. Although the Hospital does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2022 and 2021, the component unit's assets and net assets would be approximately $373,000 and $361,000, respectively; and there would be an increase in component unit net assets of approximately $12,000 and $64,000 in 2022 and 2021, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying information on pages 21 through 25 and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 21 through 25 and the schedule of expenditures of federal awards on page 27 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 26 is presented solely as supplementary information. This data has been summarized from Hospital records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2023, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 10, 2023

Financial Statements

Hospital District #1 of Crawford County, Kansas
Statements of Net Position
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources

	2022	2021
Current assets		
Cash and invested cash	$ 3,349,438	$ 5,395,154
Assets whose use is limited - required for current liabilities (Note D)	7,917	5
Patient accounts receivable, net of allowance for doubtful accounts of $975,000 in 2022 and $1,028,000 in 2021 (Note A4)	2,409,389	3,866,812
Accounts receivable - other	785,220	524,392
Estimated settlements due from third-party payors (Note B)	624,418	
Inventories (Note A5)	603,513	605,508
Prepaid expenses	263,842	283,810
Total current assets	8,043,737	10,675,681
Assets whose use is limited		
By Board of Trustees (Note C)	1,847,971	1,336,583
By donor for capital equipment (Note C)	975,000	975,000
By bond resolution (Note D)	811,917	804,177
	3,634,888	3,115,760
Less amounts required for current liabilities	7,917	5
Noncurrent assets whose use is limited	3,626,971	3,115,755
Capital assets, net (Notes A6, E, and H)	5,220,057	5,715,209
Other assets		
Other investments, at cost	35,100	35,100
Leased assets, net (Notes A7, E, and G)	424,152	438,619
Total assets	17,350,017	19,980,364
Deferred outflows of resources		
Deferred outflows on advance refunding	297,714	352,934
Total assets and deferred outflows of resources	$ 17,647,731	$ 20,333,298

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2022	2021
Current liabilities		
Current portion of lease liabilities (Note G)	$ 125,454	$ 83,405
Current portion of long-term debt (Note H)	604,234	582,381
Accounts payable and other accrued liabilities	435,887	657,168
Accrued payroll and related deductions	268,450	201,576
Accrued paid time off (Note A11)	460,504	457,442
Estimated settlements due to third-party payors (Note B)		109,440
Unearned CARES Act revenue (Note F)		1,368,097
Accrued interest payable	108,135	115,686
Total current liabilities	2,002,664	3,575,195
Noncurrent liabilities		
Lease liabilities, less current portion (Note G)	306,085	356,753
Long-term debt, less current portion (Note H)	8,372,125	9,026,778
Total noncurrent liabilities	8,678,210	9,383,531
Total liabilities	10,680,874	12,958,726
Net position (Note A10)		
Invested in capital assets, net of related debt	(3,763,689)	(3,893,949)
Restricted for capital equipment	975,000	975,000
Restricted for debt service (Note D)	811,917	804,177
Unrestricted	8,943,629	9,489,344
Total net position	6,966,857	7,374,572
Total liabilities and net position	$ 17,647,731	$ 20,333,298

Hospital District #1 of Crawford County, Kansas
Statements of Revenue, Expenses, and Changes in Net Position
Years ended December 31, 2022 and 2021

	2022	2021
Operating revenues		
Net patient service revenue	$ 18,695,019	$ 19,103,010
Other	684,141	990,080
Total operating revenues	19,379,160	20,093,090
Operating expenses		
Salaries and wages	10,416,428	10,542,831
Employee benefits	2,766,365	2,657,192
Purchased services and professional fees	3,336,470	2,972,449
Leases and rentals	82,720	159,006
Other supplies and expenses	4,123,179	4,154,993
Depreciation and amortization	1,054,340	990,558
Total operating expenses	21,779,502	21,477,029
Operating loss	(2,400,342)	(1,383,939)
Nonoperating revenues (expenses)		
Investment income	56,340	52,299
Noncapital grants and contributions	32,223	
CARES Act grant revenue	1,218,143	1,446,832
SBA PPP loan forgiveness		2,033,400
Gain on disposal of equipment	2,812	2,557
Ad valorem taxes	507,779	507,565
Interest expense	(413,333)	(409,001)
Total nonoperating revenues (expenses)	1,403,964	3,633,652
Revenues in excess of (less than) expenses before capital contributions	(996,378)	2,249,713
Capital grants and contributions	588,663	1,077,101
Change in net position	(407,715)	3,326,814
Net position at beginning of year		
As previously reported	7,376,111	4,047,758
Prior period adjustment for change in accounting principle (Note A18)	(1,539)	
As restated	7,374,572	4,047,758
Net position at end of year	$ 6,966,857	$ 7,374,572

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 19,418,584	$ 17,931,329
Payments to or on behalf of employees	(13,112,857)	(13,268,767)
Payments for supplies and services	(7,725,187)	(7,224,250)
Other receipts and payments	423,313	864,699
Net cash used by operating activities	(996,147)	(1,696,989)
Cash flows from noncapital financing activities		
Ad valorem taxes	507,779	507,565
Proceeds from CARES Act funding	158,002	1,589,071
Repayment of CARES Act funding		(1,999,465)
Repayment of Medicare accelerated payments		(4,033,591)
Noncapital contributions	32,223	
Net cash provided (used) by noncapital financing activities	698,004	(3,936,420)
Cash flows from capital and related financing activities		
Purchases of capital assets	(36,905)	(768,388)
Repayments on lease liabilities	(88,218)	(26,937)
Repayment of long-term debt	(582,381)	(560,581)
Receipt of grants and contributions restricted for capital assets	280,707	70,666
Proceeds from disposal of assets	2,812	2,557
Interest paid on long-term debt	(416,083)	(422,484)
Net cash used by capital and related financing activities	(840,068)	(1,705,167)
Cash flows from investing activities		
Investment income	56,340	52,299
Net cash provided by investing activities	56,340	52,299
Change in cash and cash equivalents	(1,081,871)	(7,286,277)
Cash and cash equivalents at beginning of year	8,510,914	15,797,191
Cash and cash equivalents at end of year	$ 7,429,043	$ 8,510,914
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 3,349,438	$ 5,395,154
Cash included in assets whose use is limited	3,634,888	3,115,760
	$ 6,984,326	$ 8,510,914

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows - Continued
Years ended December 31, 2022 and 2021

	2022	2021
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (2,400,342)	$ (1,383,939)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	658,688	990,558
Provision for bad debts	1,686,771	1,181,150
Changes in		
Patient receivables	(229,348)	(2,764,271)
Other receivables	(260,828)	(125,381)
Estimated settlements due to/from third-party payors	(733,858)	411,440
Inventories	1,995	(86,907)
Prepaid expenses	19,968	(17,622)
Accounts payable and accrued expenses	(204,781)	166,727
Accrued payroll and related deductions	66,874	(68,165)
Accrued paid time off	3,062	(579)
Net cash used by operating activities	$ (1,391,799)	$ (1,696,989)

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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

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

1. Financial reporting entity

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

2. Basis of accounting

The Hospital uses enterprise fund accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of estimates

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

4. Patient accounts receivable

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

5. Inventories

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

6. Capital assets

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

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

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

7. Leased assets and liabilities

Leased assets and liabilities are recorded at the present value of the lease payments over the lease term using the lease's implicit rate or the Hospital's incremental borrowing rate. Rental escalation clauses and extension options are factored into the determination of the lease payments when appropriate. Lease and nonlease components of contracts are separated when determining the lease payments. Leased assets are amortized on the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

8. Costs of borrowing

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

9. Deferred outflows of resources

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

10. Net position

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

- Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.

- Restricted for debt service - Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.

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

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

11. Compensated absences

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

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

12. Operating revenues and expenses

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

13. Net patient service revenue

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

14. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

15. Ad valorem taxes

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

16. Income taxes

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

17. Cash and cash equivalents

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

18. Adoption of accounting pronouncement

As of January 1, 2021, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement 87, *Leases*. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest period presented (i.e., January 1, 2021). The Hospital's comparative financial statements of prior years have been adjusted to apply these new standards retrospectively. A decrease of $1,539 has been included in the restated 2022 beginning net position balance of the Hospital under the adoption of GASB 87.

Note B - Reimbursement Programs

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

Medicare - Inpatient and outpatient acute care services, rural health clinic services, and skilled nursing swing-bed services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Inpatient geriatric psychology services are paid based on prospectively determined per diem rates. Home health and other physician services rendered to Medicare beneficiaries are paid based on prospectively determined rates.

The Hospital is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2020.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

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

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

A summary of gross and net patient service revenue follows:

	2022	2021
Gross patient service revenue	$ 36,739,390	$ 36,851,840
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(16,267,942)	(16,457,974)
Provision for bad debts	(1,686,771)	(1,181,150)
Charity care	(89,658)	(109,706)
Net patient service revenue	$ 18,695,019	$ 19,103,010

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2022 and 2021, was $89,658 and $109,706, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost reports, was $52,055 and $62,212 for 2022 and 2021, respectively.

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

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

Note D - Assets Whose use is Limited by Bond Resolution

Assets whose use is limited by bond resolution at December 31, 2022 and 2021, consist of required accounts to be maintained by the Hospital under the terms of the Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016 and Refunding Revenue Bonds, Series 2017 resolutions (see Note H).

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

	2022	2021
Debt service account - Series 2016 and 2017	$ 7,917	$ 5
Debt service reserve fund - Series 2017	804,000	804,172
	811,917	804,177
Less amounts required for current liabilities	7,917	5
	$ 804,000	$ 804,172

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

Note E - Capital and Leased Assets

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

	2022			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 281,380	$ -	$ -	$ 281,380
Projects in progress		13,450		13,450
Total capital assets not being depreciated	281,380	13,450	-	294,830
Capital assets being depreciated				
Land improvements	1,047,003	20,405		1,067,408
Buildings and fixed equipment	17,175,493	61,177		17,236,670
Major movable equipment	8,325,707	370,090	(191,322)	8,504,475
Total capital assets being depreciated	26,548,203	451,672	(191,322)	26,808,553
Less accumulated depreciation and amortization				
Land improvements	700,049	13,452		713,501
Buildings and fixed equipment	13,104,986	564,622		13,669,608
Major movable equipment	7,309,339	382,200	191,322	7,500,217
	21,114,374	960,274	191,322	21,883,326
Total capital assets being depreciated,net	5,433,829	(508,602)	-	4,925,227
Total capital assets, net	$ 5,715,209	$ (495,152)	$ -	$ 5,220,057

	2021			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 281,380	$ -	$ -	$ 281,380
Projects in progress	185,893	(185,893)		
Total capital assets not being depreciated	467,273	(185,893)	-	281,380
Capital assets being depreciated				
Land improvements	779,788	267,215		1,047,003
Buildings and fixed equipment	17,175,929		(436)	17,175,493
Major movable equipment	7,743,365	678,193	(95,851)	8,325,707
Total capital assets being depreciated	25,699,082	945,408	(96,287)	26,548,203
Less accumulated depreciation and amortization				
Land improvements	686,448	13,601		700,049
Buildings and fixed equipment	12,547,434	557,988	436	13,104,986
Major movable equipment	7,001,346	403,844	95,851	7,309,339
	20,235,228	975,433	96,287	21,114,374
Total capital assets being depreciated,net	5,463,854	(30,025)	-	5,433,829
Total capital assets, net	$ 5,931,127	$ (215,918)	$ -	$ 5,715,209

Note E - Capital and Leased Assets - Continued

Leased assets activity is as follows:

	2022			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Major movable equipment	$ 453,743	$ -	$ -	$ 453,743
Buildings		79,599		79,599
Less accumulated amortization	15,124	94,066		109,190
Leased assets, net	$ 438,619	$ (14,467)	$ -	$ 424,152

	2021			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Major movable equipment	$ -	$ 453,743	$ -	$ 453,743
Less accumulated amortization		15,124		15,124
Leased assets, net	$ -	$ 438,619	$ -	$ 438,619

Note F - Unearned CARES Act Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds were used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. The rural health clinic testing grants are to be used to support coronavirus testing and related expenses in the rural health clinics. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. The Hospital received $158,002 and $1,589,071 of CARES Act funding during 2022 and 2021, respectively. The Hospital has determined based on current guidance from HHS that the conditions have been met for recognizing revenue of $1,218,143 and $1,446,832 in 2022 and 2021, respectively, related to the provider relief funds. These amounts are included in nonoperating revenues. As of December 31, 2022, the Hospital has determined that the conditions of the CARES Act funds have been met and no amount of unearned revenue is recorded. The terms and conditions of the programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note G - Lease Liabilities

The Hospital leases certain equipment and a building, the terms of which expire in various years through 2026. The interest rate for these leases is 4.5 percent. Payments are based on each specific lease agreement. The Hospital's leases do not contain variable lease payments or residual value guarantees. The following is a summary of leases liabilities:

	2022	2021
Current portion of lease liabilities	$ 125,454	$ 83,405
Noncurrent portion of lease liabilities	306,085	356,753
Total lease liabilities	$ 431,539	$ 440,158

The following is a summary of changes in lease liabilities

Outstanding at January 1, 2021	$ -
Obligations incurred	453,743
Principal payments	(13,585)
Outstanding at December 31, 2021	440,158
Obligations incurred	79,598
Principal payments	(88,217)
Outstanding at December 31, 2022	$ 431,539

Schedule lease liability payments are as follows:

	Principal	Interest	Total
2023	$ 125,454	$ 16,842	$ 142,296
2024	127,780	11,116	138,896
2025	95,435	6,061	101,496
2026	82,870	1,710	84,580
Total	$ 431,539	$ 35,729	$ 467,268

Note G - Lease Liabilities - Continued

In March of 2021, the Hospital entered into an agreement for the use of licensed software including electronic health records technology. The contract is for a period of 7 years. The monthly support fees in the agreement are $28,103 for a total of approximately $2,368,000 over the contract term. The Hospital has classified the obligation as an operating lease based on the terms of the agreement.

The following is a schedule by year of future minimum lease payments under the licensed software agreement, as of December 31, 2022:

2023	$ 337,236
2024	337,236
2025	337,236
2026	337,236
2027	337,236
Thereafter	196,721
	$ 1,882,901

Note H - Long-Term Debt

Hospital long-term debt consists of the following:

	2022	2021
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016, issued on March 30, 2016, in the original amount of $2,605,000, variable interest rate of 2.93%	$ 2,161,289	$ 2,223,669
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2017, issued on December 28, 2017, in the original amount of $8,775,000, interest rate of 4.00%	6,505,000	7,025,000
	8,666,289	9,248,669
Net unamortized bond premium	310,070	360,490
Less current maturities	(604,234)	(582,381)
	$ 8,372,125	$ 9,026,778

The Series 2016 refunding revenue bonds were issued by the Crawford County, Kansas Public Building Commission (PBC) for the purpose of refunding the Series 2009B bonds. The Series 2016 refunding revenue bonds are due in annual installments of varying amounts with final maturity on September 1, 2034. Interest is payable on September 1 of each year.

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

Note H - Long-Term Debt - Continued

On December 28, 2017, the Crawford County, Kansas Public Building Commission issued $8,775,000 in Refunding Revenue Bonds, Series 2017, (the 2017 bonds) on behalf of the Hospital. The proceeds of the 2017 bonds were used to (1) pay the costs related to issuance of the 2017 bonds, and (2) advance refund $8,540,000 of the 2009-A bonds maturing during the years from 2018 through 2032 by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that will mature and pay interest in amounts and at times that will provide for payment of interest on the refunded 2009-A bonds through September 1, 2019, and to redeem and pay the $8,540,000 of refunded 2009-A bonds on that date at redemption prices of 100 percent and 102 percent.

As part of the refunding transactions the Hospital entered into a sublease agreement with the County dated March 30, 2016, and was further amended by supplemental sublease No. 2 dated December 28, 2017.

The refunding transaction decreased the total amount of future debt service requirements by $720,465. This resulted in an economic gain of $639,730. As a result of the transaction, a deferred refunding loss was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

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

	Principal	Interest	Total
2023	$ 604,234	$ 324,405	$ 928,639
2024	630,971	301,068	932,039
2025	653,102	276,337	929,439
2026	680,125	250,914	931,039
2027	707,208	224,431	931,639
2028 - 2032	3,964,230	687,365	4,651,595
2033 - 2034	1,426,419	63,872	1,490,291
	$ 8,666,289	$ 2,128,392	$ 10,794,681

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

Principal outstanding at January 1, 2021	$ 9,809,250
2021 payments on long-term debt	(560,581)
Principal outstanding at December 31, 2021	9,248,669
2022 payments on long-term debt	(582,381)
Principal outstanding at December 31, 2022	$ 8,666,288

The pledge of Revenues and Operation Agreement between the Hospital and Crawford County, Kansas contains covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D) and require the establishment and maintenance of charge rates for Hospital services at such levels so that net revenues available for debt service of the Hospital will not be less than 115 percent of the annual debt service requirements on the Hospital's parity debt obligations. The Hospital did not meet this requirement in 2022 and is currently in the process of complying with the agreement with the PBC and the County.

Note I - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $500,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $1,500,000. All coverage is on a claims-made basis. The above policies are renewed through March 27, 2023. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

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

Note J - Deposits with Financial Institutions

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

The carrying amount of the Hospital's deposits with financial institutions was $6,170,888 and the bank balances were $6,838,581 at December 31, 2022. The bank balances are categorized as follows at December 31, 2022:

Amount insured by the F.D.I.C., or collateralized with the Hospital's name	$ 710,290
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	6,102,752
Unsecured	25,539
	$ 6,838,581

Note K - Defined Contribution Pension Plan

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

Note K - Defined Contribution Pension Plan - Continued

For the years ended December 31, 2022 and 2021, the Hospital and covered employees made contributions to the plan as follows:

	2022	2021
Hospital contributions	$ 156,880	$ 175,688
Employee contributions	468,514	490,509

Note L - Budgetary Comparison

The Hospital legally adopted a budget for capital fund expenditures for the years ended December 31, 2022 and 2021. Actual capital fund expenditures for the year ended December 31, 2022, were $465,122 as compared to the legally adopted budgeted expenditures of $505,724. Actual capital fund expenditures for the year ended December 31, 2021, were $759,515 as compared to the legally adopted budgeted expenditures of $505,414.

Note M - Related Party Transactions

Hospital District #1 Crawford County Foundation (Foundation) was established in September 1999. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Hospital. The Foundation donated $37,491 and $16,381 in capital contributions to the Hospital during the years ended December 31, 2022 and 2021, respectively. The Foundation also donated $18,100 in noncapital contributions to the Hospital during the year ended December 31, 2022.

The Hospital participates in the 340(B) outpatient drug program. One of the pharmacies that the Hospital utilizes for the program is owned by a member of the Hospital's Board of Trustees. Approximately $29,000 and $70,000 was recognized as expense related to pharmacy services provided by the pharmacy in 2022 and 2021, respectively.

Note N - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated coronavirus (COVID-19) as a global pandemic. Patient volumes and related revenues for the Hospital's services were impacted during the latter part of March 2020 and through year-end as a result of the pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses. While many restrictions have eased, the pandemic continues to impact Hospital operations. The impact on future operations is driven by numerous factors, which are beyond management's control and management's ability to forecast the total impact on operations. The Hospital is unable to estimate the length of time or financial impact the pandemic will have on operations. The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note F pertaining to the HHS grant funds.

Note O - Subsequent Events

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

Supplementary Information

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

	2022			2021
	Inpatient	Outpatient	Total	Total
Acute care room	$ 772,302	$ 415,452	$ 1,187,754	$ 1,449,259
Swing-bed room	146,292		146,292	213,756
Intensive care room	13,548		13,548	272,314
Geriatric psych	2,258,545	121,286	2,379,831	1,917,858
Operating room	422,892	2,887,901	3,310,793	3,547,688
Orthopedic		167,214	167,214	147,545
Anesthesiology	50,835	469,890	520,725	582,280
Radiology	167,346	5,968,334	6,135,680	5,775,377
Laboratory	554,564	6,038,498	6,593,062	6,978,588
Respiratory therapy	69,778	67,138	136,916	124,022
Physical therapy	110,801	807,869	918,670	974,764
Occupational therapy	69,977	227,244	297,221	273,957
Speech therapy	4,274	17,200	21,474	12,280
Pulmonary Rehab		197,570	197,570	185,976
Medical supplies	91,103	1,166,214	1,257,317	1,519,898
Wound care		1,053,072	1,053,072	1,419,487
Pharmacy	1,002,988	1,838,196	2,841,184	3,067,218
Electrocardiology	96,242	903,376	999,618	1,031,301
Emergency room	85,074	3,791,386	3,876,460	3,121,025
Home health		393,989	393,989	513,066
Physician clinics	146,040	4,136,671	4,282,711	3,720,451
Community outreach		8,289	8,289	3,730
Gross patient service revenue	$ 6,062,601	$ 30,676,789	36,739,390	36,851,840
Contractual adjustments, discounts, and allowances				
Medicare			(5,833,594)	(6,413,502)
Medicaid			(2,730,417)	(2,772,270)
Blue Cross			(3,570,463)	(3,405,159)
Other			(4,133,468)	(3,867,043)
Provision for bad debts			(1,686,771)	(1,181,150)
Charity care			(89,658)	(109,706)
Net patient service revenue			$ 18,695,019	$ 19,103,010

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

	2022	2021
Clinic rental	$ 5,420	$ 4,379
Cafeteria sales	32,638	32,464
Grants received	25,179	32,726
340(B) drug program	581,795	890,896
Other	39,109	29,615
	$ 684,141	$ 990,080

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

	2022			2021
	Salaries	Other	Total	Total
Nursing service	$ 739,323	$ 362,915	$ 1,102,238	$ 917,296
Intensive care	32,419	45,847	78,266	295,830
Swing-bed	374	1,262	1,636	300
Geriatric psych	1,016,174	242,869	1,259,043	1,146,805
Operating room	415,462	156,637	572,099	687,049
Orthopedic	384,081	120,466	504,547	590,080
Anesthesiology		548,614	548,614	479,734
Radiology	338,678	294,761	633,439	646,418
Laboratory	547,822	694,292	1,242,114	1,308,964
Respiratory therapy	50,606	18,941	69,547	67,548
Physical therapy	241,593	14,541	256,134	265,027
Occupational therapy	87,355	2,337	89,692	102,265
Speech therapy		13,073	13,073	5,673
Pulmonary Rehab	199,361	8,569	207,930	207,031
Central supply	81,773	651,049	732,822	1,022,889
Pharmacy	222,399	734,687	957,086	972,596
Emergency room	1,269,734	66,591	1,336,325	1,244,519
Home health	306,518	31,616	338,134	373,424
Wound care	29,135	183,188	212,323	256,911
Physician clinics	2,393,461	938,758	3,332,219	2,992,925
Depreciation and amortization		1,054,340	1,054,340	990,558
Employee benefits		2,766,365	2,766,365	2,657,192
Administrative and general	1,305,414	1,443,723	2,749,137	2,516,421
Plant operation and maintenance	185,410	638,410	823,820	746,318
Laundry and linen		45,575	45,575	65,238
Housekeeping	149,000	99,238	248,238	288,755
Dietary	185,699	165,196	350,895	350,323
Nursing administration	56,716		56,716	55,672
Medical records	181,347	17,988	199,335	208,840
Community outreach	(3,426)	1,226	(2,200)	14,428
	$ 10,416,428	$ 11,363,074	$ 21,779,502	$ 21,477,029

Hospital District #1 of Crawford County, Kansas
Balance in Depository Compared with Depository Security
December 31, 2022

	Girard National Bank	Community National Bank	Farmers National Bank
Bank balances December 31, 2022	$ 5,919,811	$ 708,480	$ 210,290
Less F.D.I.C. coverage	250,000	250,000	210,290
Balance in excess of F.D.I.C. coverage	$ 5,669,811	$ 458,480	$ -
Market value of securities pledged	$ 6,520,536	$ 432,941	$ -

Hospital District #1 of Crawford County, Kansas
Summary of Insurance Coverage
December 31, 2022

Federal Insurance Company	
Policy No. 3585-70-69, expiring March 27, 2023	
Property coverage	
Buildings and contents, $25,000 deductible	$ 25,374,783
Blanket BPP, $25,000 deductible	6,936,275
Business interruption	15,000,000
Computer malicious programming	1,000,000
Cincinnati Insurance Company	
Policy No. ENP 030 75 68, expiring March 27, 2024	
Employee dishonesty-blanket, $10,000 deductible	500,000
Computer fraud, $2,500 deductible	200,000
Funds transfer fraud, $2,500 deductible	200,000
Forgery, $10,000 deductible	200,000
Kansas Medical Mutual Insurance Company	
Policy No. HPL0015133, expiring March 27, 2023	
Professional hospital liability	
Professional claims	500,000/1,500,000
Kansas Healthcare Stabilization Fund coverage	500,000/1,500,000
Additional insureds	1,000,000/3,000,000
General liability	
Personal injury and property damage liability	1,000,000/3,000,000
Employee benefits liability, $1,000 deductible	250,000
Cincinnati Insurance Company	
Policy No. EMH 0433716, expiring March 27, 2023	
Directors' and officers' liability and trustee	
and fiduciary liability, $5,000 deductible	1,000,000
Employment practices liability, $10,000 deductible	1,000,000
KHA Workers' Compensation Fund, Inc.	
Certificate No. 83, expiring January 1, 2023	
Workers compensation	
Per accident	500,000
Per employee disease	500,000
Policy limit employee disease	500,000
Cincinnati Insurance Company	
Policy No. EBA0115804, expiring October 28, 2023	
Automobile liability, each accident	1,000,000
Automobile uninsured motorist, each accident	1,000,000
Automobile underinsured motorist, each accident	1,000,000
Hired and non owned liability	1,000,000

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

	2022	2021
Patient days		
Acute	693	1,143
Swing-bed	254	379
Total inpatient	947	1,522
Geriatric psych	2,249	1,779
Outpatient visits	11,564	17,448
Discharges		
Acute	191	392
Geriatric psych	212	226
Average length of stay		
Acute	3.6	2.9
Geriatric psych	10.6	7.9
Beds		
Acute	25	25
Geriatric psych	10	10
Occupancy percent inpatient	10.38%	16.68%
Occupancy percent geriatric psych	61.62%	48.74%

Hospital District #1 of Crawford County, Kansas
Schedule of Expenditures of Federal Awards
Year ended December 31, 2022

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Passed through to subrecipients	Total federal expenditures
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund and American Rescue Plan Rural Distribution	93.498	None	$ -	$ 868,662
COVID-19 testing and mitigation for Rural Health Clinics	93.697	None		500,000
Rural Health Clinic Vaccine Confidence Program	93.912	None		158,002
COVID-19 Testing for the Uninsured	93.461	None		4,030
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	None		11,378
COVID-19 Small Hospital Improvement Program	93.301	None		257,367
Total Small Hospital Improvement Program			-	268,745
Total United States Department of Health and Human Services			-	1,799,439
Total federal awards			$ -	$ 1,799,439

Hospital District #1 of Crawford County, Kansas
Notes to the Schedule of Expenditures of Federal Awards
Year ended December 31, 2022

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Hospital District #1 of Crawford County, Kansas (Hospital) under programs of the federal government, for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities of Hospital District #1 of Crawford County, Kansas (Hospital), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated July 10, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

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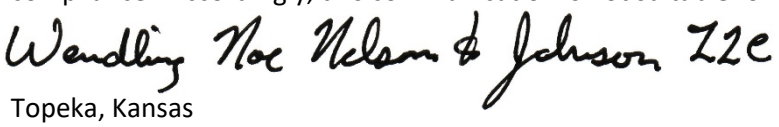
Hospital's Response to Findings

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

Purpose of This Report

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



Topeka, Kansas
July 10, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hospital District #1 of Crawford County, Kansas' (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2022. 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, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-002. Our opinion on each major federal program is not modified with respect to this matter.

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

The Hospital is responsible for preparing a corrective action plan to address each audit finding included in the auditor's report. The Hospital's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance

requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questions costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 10, 2023

Hospital District #1 of Crawford County, Kansas
Schedule of Findings and Questioned Costs
Year ended December 31, 2022

Section I - Summary of Auditors' Results

Financial statements

Type of opinion expressed in the auditor's report issued		Qualified
Internal control over financial reporting		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	_X_ Yes	___ None reported
Noncompliance material to financial statements noted	___ Yes	_X_ No

Federal awards

Internal control over major programs		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	_X_ Yes	___ None reported
Type of auditor's report issued on compliance for major programs		Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)	_X_ Yes	___ No

Identification of major programs

CFDA Number	Name of Program
93.498	Provider Relief Fund

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

Section II - Financial Statement Findings

2022-001 Estimated cost report settlements

Identification: Significant deficiency in internal control over financial reporting.

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

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

Cause: The Hospital estimates year-to-date cost report settlements a few times a year. Because of the significance of Medicare cost report reimbursement to the financial statements and the fact that the Hospital does not regularly estimate the Medicare cost report settlements in its monthly financial statements, and because of the complexity of the laws and regulations governing the Medicare program, as is presently the case for virtually all CAHs, there is more than a remote risk that future financial statements could contain significant misstatements of estimated cost report settlements.

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

Repeat Finding: Yes; prior year finding 2021-001.

Recommendations: We recommend that the Hospital consider the costs and benefits of estimating the cost report settlement on a monthly basis.

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

Section III - Federal Award Findings and Questioned Costs

2022-002

Identification: 93.498 United States Department of Health and Human Services, COVID-19 Provider Relief Fund; Noncompliance Finding/Significant Deficiency; Reporting Compliance Requirement.

Criteria: The Provider Relief Fund (PRF) was established under the Coronavirus, Aid, Relief, and Economic Security Act (Pub. L. No. 116-136, 134 Stat. 563) and the Coronavirus Relief and Response Supplemental Appropriations Act (Pub. L. No. 116-260). Eligible healthcare providers received PRF appropriations for health-care related expenses or lost revenues attributable to coronavirus. Recipients who received one or more payments exceeding $10,000 are required to report in each applicable reporting period.

Condition: The Hospital did not meet the requirement that the PRF funds be used to reimburse expenses that have not been reimbursed by other sources or that other sources are obligated to reimburse.

Cause: The Hospital's spreadsheet for tracking federal grant expenditures had multiple tabs for tracking the expenditures that were allowable uses for PRFs and other federal grants. When the expenditures were compiled for reporting, one amount was claimed that had previously been reimbursed by another federal grant.

Effect: The Hospital included $119,840 in PRF expenditures that had previously been reimbursed by other federal grants.

Questioned Costs: Known $119,840.

Perspective Information: We tested the Period 4 report submitted during the reporting period to supporting documentation to determine if the report was completed accurately.

Repeat Finding: N/A

Recommendations: We recommend policies and procedures over federal grant reporting be strengthened to ensure expenditures are not already included in the federal grant expenses or another grant and that only amounts not reimbursed by other sources or obligated to be reimbursed by other sources are included.

Views of Responsible Officials: The Hospital agrees with this finding of noncompliance and significant deficiency in internal control over compliance in the amount of $119,840. However, the Hospital also reported to the PRF portal in the Phase 4 reporting, unreimbursed expenses in an amount to cover the $119,840 in known questioned costs. We will be implementing the following plan of correction. Beginning on June 1, 2023, as new opportunities, applications, and reporting documents are prepared for Provider Relief Fund or other COVID-19 related funding, a second reviewer of the documentation prepared will be instituted requiring an approval prior to submission.