Independent Auditor's Report and Financial Statements

William Newton Memorial Hospital

December 31, 2021 and 2020

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William Newton Memorial Hospital
Management's Discussion and Analysis
Years ended December 31, 2021 and 2020

Our discussion and analysis of the financial performance of William Newton Memorial Hospital (the Hospital) and our blended component unit William Newton Healthcare Foundation, Inc., provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2021 and 2020. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position increased by $3,373,225 or 27.6 percent in 2021 and decreased by $1,084,647 or 8.2 percent in 2020.

The Hospital reported an operating loss of $2,550,181 in 2021 and $5,657,366 in 2020.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Assets, liabilities, and net position

The Hospital's net position as of the end of each of the last three years is summarized as follows:

	2021	2020	2019
Assets			
Cash	$ 14,210,601	$ 13,704,402	$ 4,262,684
Patient accounts receivable, net	7,604,636	7,252,844	8,746,269
Other current assets	1,566,319	3,530,989	2,993,570
Total current assets	23,381,556	24,488,235	16,002,523
Capital assets, net	19,461,529	21,361,957	22,109,879
Other assets	3,394,319	3,773,771	4,186,870
Total assets	46,237,404	49,623,963	42,299,272
Liabilities			
Current liabilities	(11,275,561)	(12,532,439)	(7,783,445)
Long-term obligations	(7,924,452)	(13,371,770)	(10,788,500)
Total liabilities excluding net pension and OPEB liabilities	(19,200,013)	(25,904,209)	(18,571,945)
Net pension and OPEB liabilities, net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	(11,466,891)	(11,522,479)	(10,445,405)
Net position	$ 15,570,500	$ 12,197,275	$ 13,281,922

In March 2020, the Hospital, along with all health care providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Hospital's services were impacted beginning in the latter part of March 2020. Outpatient volumes decreased from suspension of nonemergent procedures and stay at home practices. The Hospital experienced an increase in expenses due to changing practices within the Hospital and price inflation for certain supplies and drugs that were in high demand. In response, the Coronavirus Aid, Relief, and Economic Act (CARES) and subsequent legislation has provided funding during these uncertain times. The Hospital was approved for a Paycheck Protection Program (PPP) loan and received accelerated payments from Medicare, several grants from Health and Human Services (HHS), and other grants to prevent, prepare for, and respond to coronavirus. Total assets and liabilities increased in 2020 and 2021 as a result of these funding mechanisms.

The cash balances increased by $506,000 in 2021 as compared to 2020 and by $9.4 million in 2020 as compared to 2019. Significant items affecting the change in cash are reported in the cash flow statement. Operating cash flows decreased by approximately $3.8 million in 2021 as compared to 2020, which was principally due to Medicare accelerated payments received by the Hospital in 2020 being repaid in 2021. The number of days net revenue in net patient accounts receivable represented 65 days in 2021, 68 days in 2020, and 82 days in 2019. Our current ratio, or the ratio of current assets to current liabilities was 2.0, 1.9, and 2.1 for 2021, 2020, and 2019.

Capital assets decreased by $1,900,428 in 2021 and $747,922 in 2020. The change in capital assets will vary based on the timing of replacement in property and equipment and the annual provision for depreciation. During 2018, the Hospital began a significant building renovation which was substantially completed in January 2020.

We utilize long-term leases or debt to finance major capital expenditures and try to maintain sufficient liquidity in our balance sheet to cover day-to-day operating expenses of the Hospital and to provide flexibility in operating the Hospital. Our ratio of equity to total assets for the past three years was 28, 20, and 25 percent at December 31, 2021, 2020, and 2019, respectively. Total liabilities, excluding the pension and OPEB plans, decreased by $6,704,196 in 2021 as compared to 2020, and increased by $7,332,264 in 2020 as compared with 2019. The 2021 decrease is due to the Hospital meeting the terms and conditions for PPP loan forgiveness and repaying a portion of the Medicare advance payments received. The net pension and OPEB liabilities, net of deferred outflows and inflows related to the pension and OPEB plans decreased by $55,588 in 2021 as compared to 2020, after increasing by $1,077,074 in 2020 as compared to 2019.

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	2021	2020	2019
Operating revenues	$ 44,115,538	$ 40,760,136	$ 40,104,222
Operating expenses			
Salaries and benefits	24,827,924	25,012,318	21,478,011
Actuarial expense adjustments to pension and OPEB	(55,588)	1,077,075	314,547
Supplies and other	19,222,185	17,635,183	17,741,032
Depreciation	2,671,198	2,692,926	2,336,857
Total operating expenses	46,665,719	46,417,502	41,870,447
Operating income (loss)	(2,550,181)	(5,657,366)	(1,766,225)
Other changes in net position	5,923,406	4,572,719	1,223,789
Change in net position	$ 3,373,225	$ (1,084,647)	$ (542,436)

The first, and most significant, component of the overall change in the Hospital's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital's operating income (loss) improved by $3,107,185 in 2021 after declining by $3,891,141 in 2020, both as compared with the prior year. We have segregated the actuarial effect of the pension plan and OPEB adjustments to highlight the impact that these adjustments have on our financial statements.

Total operating revenues increased by 8.2 percent in 2021 as compared to an increase of 1.6 percent in 2020. Operating revenues are impacted by volume of services provided, payor mix, level of financial assistance and uncompensated care, and expenses as this impacts our revenues associated with cost-reimbursed services.

As a not-for-profit hospital, we serve all patients who come to our Hospital, regardless of ability to pay. During 2021, 2020, and 2019, the Hospital wrote off $4,469,301, $5,102,634, and $4,267,425 in charges related to patients who qualify either for financial assistance under our financial assistance policy or to bad debts. The change in these net write-offs typically will correlate with the change in revenue from uninsured patients.

We receive some relief for the cost of uncompensated care as we qualify for Medicaid disproportionate share payments (DSH) which are designed to reimburse hospitals for the cost of uncompensated care related to both uninsured and Medicaid beneficiaries. Total revenue recognized under the Medicaid DSH program was $1,042,131 in 2021, $1,016,393 in 2020, and $922,418 in 2019. These payments are funded by both federal and state funds.

Operating expenses excluding the impact of the actuarial adjustments for the pension and OPEB, increased by 3.0 percent in 2021 as compared with 2020 and increased by 8.4 percent in 2020 as compared to 2019. Significant changes in operating expenses in 2021 in comparison to 2020 were due to an increase in the use of contract nursing because of staffing shortages caused by the COVID-19 pandemic and an increase in supply and drug expenses.

Other changes in net position for the years presented were impacted by the changes in interest expense, investment income, and the change in capital grants and contributions. The Hospital recognized approximately $5.1 and $4.4 million in 2021 and 2020, in grants received from both the federal and state government to support operations caused by the disruption of the pandemic. This support has been essential in allowing us to maintain our operations through this unprecedented situation.

The Hospital's focus remains that of maintaining and growing utilization of Hospital services. Although the population living in our primary market area is not anticipated to change dramatically in the future, patient out-migration to other health care markets is a concern as some residents look outside our community for services. Our philosophy is to commit resources to maintain updated facilities and to invest in state of the art technology. We are also committed to offering programs and services that improve patient safety and promote a high level of quality care within the Hospital. Many factors, both internal and external, affect our ability to meet our goals. For example, to maintain or grow hospital utilization, there is a requirement that the community have an adequate number and mix of primary care and specialty physicians. We monitor these numbers and continue to be proactive in the recruitment of physicians to our community.

This financial report is designed to provide a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Administration Office at 1300 East 5th Street, Winfield, Kansas 67156.

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

John R. Helms, CPA · Adam C. Crouch, CPA
Tyler R. Crow, CPA · Stephanie D. Kennedy, CPA
Joshua A. Wisenbaker, CPA

Independent Auditor's Report

Board of Trustees
William Newton Memorial Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of William Newton Memorial Hospital (Hospital) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of William Newton Memorial Hospital as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 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. The audit of the financial statements as of and for the year ended December 31, 2020, was not conducted under *Government Auditing Standards.* The financial statements of the blended component unit William Newton Healthcare Foundation, Inc., were not audited in accordance with *Governmental Auditing Standards.*

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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide will

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-4 and the pension and other postretirement information on pages 37-39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. 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*, is 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 financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 30, 2022

Financial Statements

William Newton Memorial Hospital
Statements of Net Position
December 31,

Assets and Deferred Outflows of Resources

	2021	2020
Current assets		
Cash and cash equivalents	$ 14,210,601	$ 13,704,402
Patient accounts receivable, net of allowance for doubtful accounts of $4,257,636 in 2021 and $3,962,628 in 2020	7,604,636	7,252,844
Other receivables	251,400	461,260
Inventories	1,051,202	610,435
Prepaid expenses	263,717	259,294
Estimated third-party payor settlements		2,200,000
Total current assets	23,381,556	24,488,235
Assets limited as to use		
Cash restricted under lease agreement	434,000	434,000
Contributions receivable, net	556,172	892,237
Investments held by Foundation	1,996,132	1,819,964
	2,986,304	3,146,201
Capital assets, net	19,461,529	21,361,957
Other assets	408,015	627,570
Total assets	46,237,404	49,623,963
Deferred outflows of resources		
Pension	5,285,551	5,634,676
Other postemployment benefits	41,277	43,744
Total deferred outflows of resources	5,326,828	5,678,420
Total assets and deferred outflows of resources	$ 51,564,232	$ 55,302,383

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2021	2020
Current liabilities		
Current maturities of long-term obligations	$ 1,381,485	$ 1,295,193
SBA PPP loan payable		3,934,400
Accounts payable and accrued expenses	1,882,773	1,578,300
Salaries, wages, and related withholdings payable	874,270	856,055
Accrued discretionary leave	1,201,609	1,265,534
Accrued health insurance claims	233,749	269,266
Estimated third-party payor settlements	677,287	102,302
Unearned CARES Act revenue	1,974,608	981,389
Medicare accelerated payments	3,049,780	2,250,000
Total current liabilities	11,275,561	12,532,439
Noncurrent liabilities		
Long-term obligations, net of current maturities	7,924,452	9,619,260
Medicare accelerated payments, net of current portion		3,752,510
Net pension liability	11,852,603	16,344,456
Net other postemployment benefit liability	428,704	459,186
Total noncurrent liabilities	20,205,759	30,175,412
Total liabilities	31,481,320	42,707,851
Deferred inflows of resources		
Pension	4,383,093	331,503
Other postemployment benefits	129,319	65,754
Total deferred inflows of resources	4,512,412	397,257
Net position		
Invested in capital assets, net of related debt	10,155,592	10,447,504
Restricted		
For lease or operating activities	438,365	443,317
Expendable for capital acquisitions	1,326,677	1,235,502
Nonexpendable permanent endowments	466,385	466,385
Unrestricted	3,183,481	(395,433)
Total net position	15,570,500	12,197,275
Total liabilities, deferred inflows of resources, and net position	$ 51,564,232	$ 55,302,383

William Newton Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31,

	2021	2020
Operating revenues		
Net patient service revenue	$ 42,789,715	$ 39,253,614
Other	1,325,823	1,506,522
Total operating revenues	44,115,538	40,760,136
Operating expenses		
Salaries and wages	19,141,514	19,629,208
Employee benefits	5,686,410	5,383,110
Actuarial adjustments to pension and OPEB expenses	(55,588)	1,077,075
Supplies and other	19,222,185	17,635,183
Depreciation and amortization	2,671,198	2,692,926
Total operating expenses	46,665,719	46,417,502
Operating loss	(2,550,181)	(5,657,366)
Nonoperating revenues (expenses)		
Investment income	286,414	286,591
Interest expense	(415,055)	(538,913)
Noncapital grants and contributions	210,620	114,009
COVID-19 noncapital grants and contributions and PPP loan forgiveness	5,102,990	4,416,953
Other	(102,490)	(41,703)
Total nonoperating revenues (expenses)	5,082,479	4,236,937
Excess of expenses over (under) revenues before capital grants and contributions	2,532,298	(1,420,429)
Capital grants and contributions	840,927	335,782
Change in net position	3,373,225	(1,084,647)
Net position at beginning of year	12,197,275	13,281,922
Net position at end of year	$ 15,570,500	$ 12,197,275

The accompanying notes are an integral part of these statements.

William Newton Memorial Hospital
Statements of Cash Flows
Years ended December 31,

	2021	2020
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 42,260,178	$ 44,649,189
Payments to or on behalf of employees	(24,909,151)	(24,732,316)
Payments to suppliers	(19,172,908)	(17,720,136)
Other receipts and payments	1,535,444	1,288,564
Net cash provided (used) by operating activities	(286,437)	3,485,301
Cash flows from noncapital financing activities		
Noncapital grants and contributions	210,859	113,770
Proceeds from SBA PPP loan payable		3,934,400
COVID-19 relief payments received	2,161,809	5,466,168
Other	(104,340)	(43,261)
Net cash provided by noncapital financing activities	2,268,328	9,471,077
Cash flows from capital and related financing activities		
Purchases of capital assets	(517,548)	(3,344,418)
Grants and contributions for capital	1,176,992	605,953
Proceeds from sale of equipment	1,850	1,558
Proceeds from refinanced debt	7,571,603	
Principal payments on long-term debt	(9,403,780)	(1,966,216)
Interest paid	(415,055)	(538,913)
Net cash used by capital and related financing activities	(1,585,938)	(5,242,036)
Cash flows from investing activities		
Change in investments held by Foundation	(76,080)	(13,024)
Investment income received	186,326	78,235
Net cash provided by investing activities	110,246	65,211
Change in cash and cash equivalents	506,199	7,779,553
Cash and cash equivalents at beginning of year	14,138,402	6,358,849
Cash and cash equivalents at end of year	$ 14,644,601	$ 14,138,402

The accompanying notes are an integral part of these statements.

William Newton Memorial Hospital
Statements of Cash Flows - Continued
Years ended December 31,

	2021	2020
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	$ 14,210,601	$ 13,704,402
Cash restricted under lease agreement	434,000	434,000
	$ 14,644,601	$ 14,138,402
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (2,550,181)	$ (5,657,366)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	2,671,198	2,692,926
Provision for bad debts	3,923,511	3,953,611
Changes in		
Patient accounts receivable	(4,275,303)	(2,460,186)
Inventories	(440,767)	(88,721)
Prepaid expenses	(4,423)	314
Other receivables	209,621	(217,957)
Other assets	219,555	493,282
Accounts payable and accrued expenses	193,685	(209,826)
Estimated third-party payor settlements	2,774,985	(2,100,360)
Medicare accelerated payments	(2,952,730)	6,002,510
Net pension liability, deferred inflows and deferred outflows related to defined benefit pension and OPEB plans	(55,588)	1,077,074
Net cash provided (used) by operating activities	$ (286,437)	$ 3,485,301
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains (losses) on investments	$ 100,088	$ 208,356
Capital lease obligations incurred	223,661	679,978

The accompanying notes are an integral part of these statements.

William Newton Memorial Hospital
Notes to Financial Statements
December 31, 2021 and 2020

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

A summary of the significant accounting policies of William Newton Memorial Hospital (Hospital) consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

William Newton Memorial Hospital (Hospital) is governed by a five-member Board of Trustees appointed by the Commissioners of the City of Winfield, Kansas. The Hospital, which was organized in 1927, is a 25-bed, not-for-profit general hospital located in Winfield, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property.

2. Component unit

William Newton Healthcare Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation established for the purpose of providing financial assistance to the Hospital and assisting the Hospital and others in the recruitment of physicians and other medical health care personnel to locate and practice in Winfield, Kansas. The Foundation is administered by a self-perpetuating Board of Directors, which is appointed by the Hospital, who is the sole voting member of the Foundation. The Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

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. Basis of accounting

The financial statements of the Hospital have been prepared on the accrual basis of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on a percentage of revenue, the aging of its accounts receivable by type of payor, and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of fair value or cost as determined by the first-in, first-out method.

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

8. Assets limited as to use

Assets limited as to use include assets restricted under lease agreement, investments held by the Foundation, and contributions receivable related to a capital campaign conducted by the Foundation. Investments are reported at fair value. See Note S. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

9. Capital assets

Capital assets (including assets recorded as capital leases) are 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 gains and losses.

10. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

11. Accrued discretionary leave

Employees of the Hospital are entitled to paid time off depending on length of service and whether they are full-time or part-time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued discretionary leave, up to an allowable maximum. The Hospital accrues these benefits as earned.

12. Deferred outflows of resources and deferred inflows 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. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

13. Pension and Other Post Employment Benefit (OPEB) plans

The Hospital participates in the Kansas Public Employees Retirement System Plan (KPERS), a cost-sharing multiple-employer defined benefit pension plan. The Hospital also provides long-term disability benefits to its employees through KPERS. The Hospital uses information provided by KPERS to measure the net pension and OPEB liabilities, deferred outflows of resources, and deferred inflows of resources of the KPERS pension and OPEB plans.

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

14. Net position

Net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted" is net position whose use has been limited by lenders or donors to a specific time period or purpose temporarily or permanently. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

15. Operating revenues and expenses

The Hospital's statement of revenues, 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.

16. Financial assistance

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

17. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management is unaware of any uncertainties in income tax positions. Tax years ending on or after December 31, 2018, are subject to examination by taxing authorities.

18. Subsequent events

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

Note B - 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 charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best 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 - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Physician services except for the rural health clinics, are prospectively paid based on their respective fee schedules. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the

Note B - Net Patient Service Revenue - Continued

Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2019.

Medicaid - Inpatient and outpatient 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. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or fee-for-service basis.

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

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

A summary of Hospital gross and net patient service revenue for the years ended December 31, 2021 and 2020, is as follows:

	2021	2020
Gross patient service revenue	$ 96,791,535	$ 84,556,677
Deductions from patient service revenue		
Third-party contractual adjustments	(50,470,485)	(41,141,441)
Medicaid DSH payments	1,042,131	1,016,393
Other discounts and allowances	(104,165)	(75,381)
Financial assistance	(545,790)	(1,149,023)
Provision for bad debts	(3,923,511)	(3,953,611)
Net patient service revenue	$ 42,789,715	$ 39,253,614

The Hospital estimates that the cost of providing financial assistance, based on overall cost to charge ratios obtained from the Hospital's cost reports was $249,000 and $574,000 for 2021 and 2020, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 38 percent and 8 percent and 42 percent and 8 percent, respectively, of the Hospital's net patient service revenue during 2021 and 2020. 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.

Note C - Assets Limited as to Use

Assets limited as to use, cash restricted under lease agreement, are comprised of a certificate of deposit as required under a financing agreement and a checking account and are stated at fair value. Assets limited as to use, held by the Foundation, are carried at fair value which is determined based on quoted market prices in active markets. The Foundation carries its interest in the assets held by the community foundation at the value provided by the community foundation. These assets are invested as follows and reported in the statement of net position under the following categories:

	2021		
	Cost	Unrealized gains (losses)	Fair market value
Equity mutual funds	$ 1,040,660	$ 408,436	$ 1,449,096
Common Stock	22,386	(207)	22,179
Fixed income mutual funds	472,001	4,196	476,197
Interest in assets, held by community foundation	48,660		48,660
	$ 1,583,707	$ 412,425	$ 1,996,132

	2020		
	Cost	Unrealized gains (losses)	Fair market value
Equity mutual funds	$ 1,000,703	$ 297,443	$ 1,298,146
Fixed income mutual funds	466,141	14,894	481,035
Interest in assets, held by community foundation	40,783		40,783
	$ 1,507,627	$ 312,337	$ 1,819,964

Note D - Capital Assets

Capital assets consist of the following:

	Balance December 31, 2020	Transfers and additions	Retirements	Balance December 31, 2021
Land improvements	$ 730,733	$ -	$ -	$ 730,733
Buildings	36,170,737	6,265		36,177,002
Equipment	18,803,529	583,169	31,108	19,355,590
Total capital assets being depreciated	55,704,999	589,434	31,108	56,263,325
Less accumulated depreciation and amortization				
Land improvements	373,867	28,192		402,059
Buildings	20,548,284	1,198,159		21,746,443
Equipment	13,595,918	1,444,847	31,108	15,009,657
Total accumulated depreciation and amortization	34,518,069	2,671,198	31,108	37,158,159
Total capital assets being depreciated, net	21,186,930	(2,081,764)	-	19,105,166
Land	101,702			101,702
Projects in progress	73,325	181,336		254,661
Total capital assets not being depreciated	175,027	181,336	-	356,363
Capital assets, net	$ 21,361,957	$ (1,900,428)	$ -	$ 19,461,529

	Balance December 31, 2019	Transfers and additions	Retirements	Balance December 31, 2020
Land improvements	$ 670,997	$ 59,736	$ -	$ 730,733
Buildings	26,209,865	10,263,687	302,815	36,170,737
Equipment	16,590,121	2,358,394	144,986	18,803,529
Total capital assets being depreciated	43,470,983	12,681,817	447,801	55,704,999
Less accumulated depreciation and amortization				
Land improvements	342,954	30,913		373,867
Buildings	19,606,139	1,244,960	302,815	20,548,284
Equipment	12,323,851	1,417,053	144,986	13,595,918
Total accumulated depreciation and amortization	32,272,944	2,692,926	447,801	34,518,069
Total capital assets being depreciated, net	11,198,039	9,988,891	-	21,186,930
Land	101,702			101,702
Projects in progress	10,810,138	(10,736,813)		73,325
Total capital assets not being depreciated	10,911,840	(10,736,813)	-	175,027
Capital assets, net	$ 22,109,879	$ (747,922)	$ -	$ 21,361,957

Note E - Other Assets

The Hospital has determined that recruitment of physicians is in the best interest of the Hospital's patients and the community served by the Hospital, and will enhance the Hospital's ability to meet the health care needs of the community's residents. To accomplish this, the Hospital has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in the Hospital's service area. In return, the physicians have agreed to provide professional services for the residents of the Hospital's service area over varying periods up to five years. The financial assistance is rendered in the form of interest-bearing loans from the Hospital. Upon establishment of their practices, principal and accumulated interest on loans are forgiven ratably over the required service periods. If the physician does not establish a medical practice, or if they leave the community prior to completion of the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, if applicable.

Note F - Long-term Obligations

Long-term obligations consist of the following:

	2021	2020
Capital lease obligations; interest rates from 1.86% to 6.77%; collateralized by leased equipment with an amortized cost of $1,978,591 at December 31, 2021	$ 1,654,134	$ 2,193,352
Capital lease obligations; interest rates from 3.25% to 5.59%; collateralized by leased buildings or building improvements with an amortized cost of $8,894,170 at December 31, 2021	7,651,803	8,721,101
	9,305,937	10,914,453
Less current maturities	1,381,485	1,295,193
Long-term maturities, less current maturities	$ 7,924,452	$ 9,619,260

On July 26, 2018, the Hospital entered into lease purchase agreements with a local bank to fund an extensive building renovations project. The first lease agreement had an available amount of $2,300,000 and an interest rate of 4.25 percent and was loaned to the Hospital as building renovation costs were incurred. Once the funds in the first lease agreement were exhausted, the second lease agreement with an available amount of $6,851,987 and an interest rate of 5.15 percent was loaned to the Hospital as building renovations costs were incurred. The Hospital completed the project in January 2020 and began making monthly interest and principal payments in February 2020. On July 1, 2021, the Hospital refinanced both lease agreements with a lease purchase agreement with a local bank. The refinanced amount was $7,571,603 with an interest rate of 3.25 percent. Monthly principal and interest payments total $70,710 for this lease.

Note F - Long-term Obligations - Continued

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

	Capital lease obligations	Temporary notes	Total long-term obligations
Outstanding at January 1, 2020	$11,975,691	$ 225,000	$12,200,691
Obligations incurred	679,978		679,978
Principal payments	(1,741,216)	(225,000)	(1,966,216)
Outstanding at December 31, 2020	10,914,453	-	10,914,453
Obligations incurred	7,795,264		7,795,264
Principal payments	(9,403,780)		(9,403,780)
Outstanding at December 31, 2021	$ 9,305,937	$ -	$ 9,305,937

Scheduled annual future minimum lease payments under capital leases are as follows:

Year	Principal	Interest	Total
2022	$ 1,381,485	$ 277,204	$ 1,658,689
2023	1,264,351	250,471	1,514,822
2024	1,096,525	207,144	1,303,669
2025	921,127	170,367	1,091,494
2026	769,478	141,169	910,647
2027 - 2031	3,872,971	342,500	4,215,471
Total	$ 9,305,937	$ 1,388,855	$10,694,792

Note G - SBA PPP Loan Payable

On April 17, 2020, the Hospital was granted a $3,934,400 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Hospital received loan forgiveness of the entire loan amount plus accrued loan interest of $45,792 on June 10, 2021, and has recognized this forgiveness as nonoperating revenue in 2021.

Note H - Unearned CARES Act Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, and subsequent legislation. The Hospital received the United States Department of Health and Human Services (HHS) provider relief funds to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS that are attributable to coronavirus (COVID-19). The Hospital also received rural health clinic testing funds to be used to support coronavirus testing and related expenses in the rural health clinics and SPARK (Strengthening People and Revitalizing Kansas) grants from Cowley County, Kansas, and the state of Kansas to respond to coronavirus. As a condition to receiving these distributions, the Hospital must agree to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned revenues until such time the eligibility requirements have been met.

The Hospital has determined that the conditions for lost revenues and allowable expenditures have been met for $1,168,590, and $4,484,779 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2021 and 2020, respectively. These amounts have, therefore, been recognized and are classified in the financial statements as COVID-19 grant revenue or capital grants and contributions during the years ended December 31, 2021 and 2020. The Hospital has recorded $1,974,608 and $981,389 of grant funds as unearned revenue at December 31, 2021 and 2020, respectively. The terms and conditions of these 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 I - Medicare Accelerated Payments

The Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, provided for a temporary expansion of Medicare's ability to provide accelerated advance payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $6,002,510. Medicare will recoup the payments by offsetting future claim and settlement payments due to the Hospital for services rendered to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment (recoupment) terms of the accelerated payments. Recoupment began in April 2021 at the rate of 25 percent of Medicare payments. The recoupment rate will be 25 percent of Medicare payments from April 2021 through February 2022, that increase to 50 percent beginning in March 2022 for 6 months. If the full amount has not been recovered during the recoupment period, the remaining portion will be due in full on demand. If the demanded amount is not paid within 30 days, interest will be charged at 4 percent. The remaining balance of the accelerated advance payments are scheduled to be recouped during the year ending December 31, 2022. Therefore, all outstanding amounts are classified as current.

Note J - Defined Benefit Pension Plan

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERS. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Benefits

Benefits are established by statute and may only be changed by the Kansas Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points." Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation for each of the three state-wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members. The employer rates established by statute at December 31, 2021 and 2020, are 8.87 percent and 8.61 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2021 and 2020, were $1,636,096 and $1,632,414, respectively, equal to the statutory required contributions for each year.

Note J - Defined Benefit Pension Plan - Continued

Employer and nonemployer allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2021 and 2020, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2021 and 2020, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2021, the Hospital's proportion was 0.979 percent which was an increase of 0.036 percent over from its share at December 31, 2020.

Net pension liability

At December 31, 2021 and 2020, the Hospital reported a liability of $11,852,603 and $16,344,456, respectively, for its proportionate share of the net pension liability.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2020 and 2019, which was then rolled forward to June 30, 2021 and 2020, using the following actuarial assumptions:

Actuarial assumptions	2020	2019
Price inflation	2.75%	2.75%
Salary and wage increases	3.50% - 12.00%	3.25% - 11.75%
Long-term rate of return net of investment expense and including price inflation	7.25%	7.50%

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

Note J - Defined Benefit Pension Plan - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2021, are summarized in the following table:

Asset class	Long-term target allocation	Long-term expected real rate of return
U.S. Equities	23.50 %	5.20 %
Non-U.S. Equities	23.50	6.40
Private Equity	8.00	9.50
Private Real Estate	11.00	4.45
Yield driven	8.00	4.70
Real return	11.00	3.25
Fixed income	11.00	1.55
Short-term investments	4.00	0.25
Total	100.00 %	

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent and 7.50 percent at June 30, 2021 and 2020, respectively. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for 2021 was 1.2 percent.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the pension plan as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% decrease (6.25%)	Current discount rate (7.25%)	1% increase (8.25%)
Hospital's share of net pension liability	$ 19,496,382	$ 11,852,603	$ 5,442,327

Pension expense

For the years ended December 31, 2021 and 2020, the Hospital recognized pension expense of $1,544,958 and $2,650,357, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Note J - Defined Benefit Pension Plan - Continued

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2021 and 2020, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	2021	2020
Deferred outflows of resources		
Differences between expected and actual experience	$ 467,850	$ 272,903
Change of assumptions	2,333,199	984,479
Net difference between projected and actual earnings on pension plan investments		1,906,991
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	1,675,206	1,639,311
Employer contributions subsequent to the measurement date	809,296	830,992
Total deferred outflows of resources	$ 5,285,551	$ 5,634,676
Deferred inflows of resources		
Differences between expected and actual experience	$ 107,320	$ 210,129
Net difference between projected and actual earnings on pension plan investments	4,208,827	
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	66,946	121,374
Total deferred inflows of resources	$ 4,383,093	$ 331,503

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2021, that will be recognized in pension expense in future years:

Year ended December 31,	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2022	$ 809,296	$ 320,162	$ 1,129,458
2023		341,549	341,549
2024		153,628	153,628
2025		(827,303)	(827,303)
2026		105,126	105,126
	$ 809,296	$ 93,162	$ 902,458

Note K - Other Postemployment Benefit Plan

Plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their members as provided by K.S.A. 74-04927. The Hospital is considered to be participating in a single employer long-term disability plan. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which includes Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

The death benefit paid to beneficiaries of disabled members is 150 percent of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the member's previous 12 months of compensation at the time of the past date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered employees

The Hospital has the following employees covered by the Plan as of December 31:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	2	2
Active employees	297	297
Total	299	299

Net OPEB liability

At December 31, 2021 and 2020, the Hospital reported a total OPEB liability of $428,704 and $459,186, respectively.

Note K - Other Post Employment Benefit Plan - Continued

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2020 and 2019, which were then rolled forward to June 30, 2021 and 2020, using the following actuarial assumptions:

Actuarial assumptions	2020	2019
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary and wage increases	3.50% - 10.00%	3.50% - 10.00%
Discount rate	2.16%	2.21%

In 2020 and 2019, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements are anticipated using Scales MP-2021 and MP-2020 in 2020 and 2019, respectively. Mortality used for the disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study conducted for the period January 1, 2016 through December 31, 2018.

Changes in total OPEB liability

	June 30, 2021	June 30, 2020
Balance at beginning of period	$ 459,186	$ 450,550
Changes for the year		
Service cost	72,023	54,513
Interest	11,358	17,074
Changes of economic/demographic gains or losses	(79,745)	(51,925)
Changes in assumptions of other inputs	647	23,739
Benefit payments	(34,765)	(34,765)
	(30,482)	8,636
Balance at end of period	$ 428,704	$ 459,186

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2021, calculated using the discount rate of 2.16 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current rate:

	1% decrease 1.16%	Current discount rate 2.16%	1% increase 3.16%
Total OPEB liability	$ 440,139	$ 428,704	$ 414,955

Note K - Other Post Employment Benefit Plan - Continued

OPEB expense

For the years ended December 31, 2021 and 2020, the Hospital recognized OPEB expense of $70,315 and $66,384, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2021 and 2020, are included in the tables below.

	2021	2020
Deferred outflows of resources		
Benefit payments subsequent to the measurement date	$ 17,383	$ 17,383
Changes of assumptions	23,894	26,361
Total deferred outflows of resources	$ 41,277	$ 43,744
Deferred inflows of resources		
Differences between expected and actual experience	$ 119,411	$ 53,844
Changes of assumptions	9,908	11,910
Total deferred outflows of resources	$ 129,319	$ 65,754

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2021, that will be recognized in OPEB expense in future years:

Year ended December 31,	Benefit payments subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2022	$ 17,383	$ (13,066)	$ 4,317
2023		(13,066)	(13,066)
2024		(13,066)	(13,066)
2025		(13,066)	(13,066)
2026		(12,597)	(12,597)
Thereafter		(40,564)	(40,564)
	$ 17,383	$ (105,425)	$ (88,042)

Note L - Employee Health Insurance Claims

The Hospital is partially self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of $75,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third party agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent.

The following is a summary of the activity under this arrangement for the year ended December 31, 2021 and 2020:

	2021	2020
Estimated employee health insurance claims payable at beginning of period	$ 269,266	$ 222,887
Provision for employer's share of incurred claims expenses for the period	2,404,238	1,989,976
Employee contributions	962,784	942,874
Payments made for claims, expenses, and reinsurance	(3,402,539)	(2,886,471)
Estimated employee health insurance claims payable at end of period	$ 233,749	$ 269,266

Note M - Operating Leases

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2021 and 2020 was approximately $138,000 and $157,000, respectively.

Note N - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. The policy provided by an independent insurance carrier also provides for umbrella liability in excess of the underlying limits set forth above in the amount of $1,000,000 per occurrence with an aggregate in any one policy year of $1,000,000. All coverage is on a claims-made basis. The Hospital renewed this coverage in January 2022 for a one-year term.

The Hospital has entered into a self-insured trust agreement with the Kansas Hospital Association, along with other qualified hospitals in the State of Kansas. The purpose of this trust is to purchase workers' compensation insurance for employees. To the extent the trust would have been unable to meet its claims liabilities, members have, jointly and severally, agreed to pay for all claims. Management has assessed the financial condition of the trust and believes that the trust is sufficiently funded to meet its liabilities as they come due as of December 31, 2021. Management is not aware of any intention by the trust to implement an assessment in the future for past funding shortages.

Note O - 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. Statutes also require that financial institutions pledge securities with a market value equal to total deposits, in excess of F.D.I.C. coverage at any given time, and 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 including repurchase agreements was $13,670,765 and the bank balance was $14,207,024 at December 31, 2021.

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital in the Hospital's name	$ 1,468,524
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipts by an authorized depository other than the pledging financial institution's trust department but not in the Hospital's name)	12,575,787
Unsecured (not in compliance with State statutes)	162,713
	$14,207,024

Note P - Concentration of Credit Risk

The Hospital is located in Winfield, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	2021	2020
Medicare	21 %	24 %
Medicaid	16	14
Blue Cross	13	11
Commercial insurance	23	22
Self-pay	27	29
	100 %	100 %

Note Q - Commitments and Contingencies

In addition to the risk 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. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note Q - Commitments and Contingencies - Continued

As of December 31, 2021, the Hospital had entered into agreements for a nurse call system and a phone system at a total cost of approximately $620,000.

Note R - Restricted Net Assets

When a donor specifies the purpose of a contribution, the contribution and related income is recorded as either temporarily restricted or permanently restricted according to the donor's request. If the Foundation receives a gift that does not specify a restriction, the Foundation records the gift as unrestricted.

The Foundation's net assets include permanent endowments, the income from which is to accumulate to enable the Foundation to provide continuing support to the Hospital. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Trustees has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA.

It is the policy of the board to manage its investments in a prudent manner consistent with good stewardship, yet striving to enhance its return on the available funds. To assist in accomplishing this objective, the board has established an asset allocation policy, engages a professional investment advisor, and monitors the investments and investment returns.

If the fair value of assets associated with donor-restricted funds falls below the level that the donor or UPMIFA requires the Foundation to retain as permanently restricted, such deficiencies are reported in unrestricted net assets. At December 31, 2021, no such deficiencies existed.

Note S - Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

Note S - Fair Value of Financial Instruments - Continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis.

Money market mutual funds, equity, common stock, and fixed income mutual funds, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

The following tables set forth, by level, the assets measured at fair value on a recurring basis for the Foundation.

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	$ 1,449,096	$ -	$ -	$ 1,449,096
Common stock	22,179			$ 22,179
Fixed income mutual funds	476,197			476,197
	$ 1,947,472	$ -	$ -	$ 1,947,472

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	$ 1,298,146	$ -	$ -	$ 1,298,146
Fixed income mutual funds	481,035			481,035
	$ 1,779,181	$ -	$ -	$ 1,779,181

Note T - Contributions Receivable

The Foundation has initiated a Capital Campaign to help fund a Hospital building renovations project. These contributions are considered restricted by donor. Promises to give and contributions receivable recognized under the Capital Campaign consist of the following:

	2021	2020
Restricted promises receivable	$ 741,563	$ 1,189,651
Less: unamortized discounts and allowance for uncollectible pledges	(185,391)	(297,414)
Net unconditional promises receivable	$ 556,172	$ 892,237
Amounts due in		
Less than one year	$ 256,247	$ 301,928
One to five years	454,521	770,698
Six to nine years	30,795	117,025
	$ 741,563	$ 1,189,651

Note U - Condensed Combining Information

Condensed financial data for the Hospital and its blended component unit as of and for the year ended December 31, 2021, are presented in the following tables:

	Statement of Net Position - 2021			
	Hospital	Foundation	Eliminations	Combined
Assets				
Cash and cash equivalents	$ 13,239,690	$ 970,911	$ -	$ 14,210,601
Other current assets	9,170,955			9,170,955
Contributions receivable, net		556,172		556,172
Investments held by Foundation		1,996,132		1,996,132
Capital assets, net	19,461,529			19,461,529
Other assets	842,015			842,015
Total assets	42,714,189	3,523,215	-	46,237,404
Deferred outflows of resources	5,326,828	-	-	5,326,828
Total assets and deferred outflows of resources	$ 48,041,017	$ 3,523,215	$ -	$ 51,564,232
Liabilities				
Accounts payable and accrued expenses	$ 1,882,773	$ -	$ -	$ 1,882,773
SBA PPP loan payable				
Unearned CARES Act revenue	1,974,608			1,974,608
Medicare accelerated payments	3,049,780			3,049,780
Other current liabilities	4,368,400			4,368,400
Other noncurrent liabilities	20,205,759			20,205,759
Total liabilities	31,481,320	-	-	31,481,320
Deferred inflows of resources	4,512,412	-	-	4,512,412
Net position				
Invested in capital assets - net of related debt	10,155,592			10,155,592
Restricted				
For lease or operating	434,000	4,365		438,365
For capital acquisition		1,326,677		1,326,677
Nonexpendable permanent endowments		466,385		466,385
Unrestricted	1,457,693	1,725,788		3,183,481
Total net position	12,047,285	3,523,215	-	15,570,500
Total liabilities, deferred inflows of resources, and net position	$ 48,041,017	$ 3,523,215	$ -	$ 51,564,232

Note U - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2021			
	Hospital	Foundation	Eliminations	Combined
Operating revenue				
Net patient service revenue	$ 42,789,715	$ -	$ -	$ 42,789,715
Other revenues	1,325,823			1,325,823
Total operating revenues	44,115,538	-	-	44,115,538
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	24,772,336			24,772,336
Supplies and other	19,222,185			19,222,185
Depreciation and amortization	2,671,198			2,671,198
Total operating expenses	46,665,719	-	-	46,665,719
Operating loss	(2,550,181)	-	-	(2,550,181)
Nonoperating revenues (expenses)	4,778,662	(175,692)	479,509	5,082,479
Excess of revenues over (under) expenses	2,228,481	(175,692)	479,509	2,532,298
Capital grants and contributions	761,532	558,904	(479,509)	840,927
Change in net position	2,990,013	383,212	-	3,373,225
Net position at beginning of year	9,057,272	3,140,003		12,197,275
Ending net position	$ 12,047,285	$ 3,523,215	$ -	$ 15,570,500

	Statement of Cash Flows - 2021			
	Hospital	Foundation	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ (286,437)	$ 239	$ (239)	$ (286,437)
Noncapital financing activities	2,228,012	(439,432)	479,748	2,268,328
Capital and related financing activities	(2,001,398)		415,460	(1,585,938)
Investing activities	22,674	982,541	(894,969)	110,246
Net change in cash and cash equivalents	(37,149)	543,348		506,199
Cash and cash equivalents at beginning of year	13,710,839	427,563		14,138,402
Cash and cash equivalents at end of year	$ 13,673,690	$ 970,911	$ -	$ 14,644,601

Note U - Condensed Combining Information - Continued

Condensed financial data for the Hospital and its blended component unit as of and for the year ended December 31, 2020, are presented in the following tables:

	Statement of Net Position - 2020			
	Hospital	Foundation	Eliminations	Combined
Assets				
Cash and cash equivalents	$ 13,276,839	$ 427,563	$ -	$ 13,704,402
Other current assets	10,783,594	239		10,783,833
Contributions receivable, net		892,237		892,237
Investments held by Foundation		1,819,964		1,819,964
Capital assets, net	21,361,957			21,361,957
Other assets	1,061,570			1,061,570
Total assets	46,483,960	3,140,003	-	49,623,963
Deferred outflows of resources	5,678,420	-	-	5,678,420
Total assets and deferred outflows of resources	$ 52,162,380	$ 3,140,003	$ -	$ 55,302,383
Liabilities				
Current liabilities	$ 12,532,439	$ -	$ -	$ 12,532,439
Noncurrent liabilities	30,175,412			30,175,412
Total liabilities	42,707,851	-	-	42,707,851
Deferred inflows of resources	397,257	-	-	397,257
Net position				
Invested in capital assets - net of related debt	10,447,504			10,447,504
Restricted				
For lease or operating activities	434,000	9,317		443,317
For capital acquisition		1,235,502		1,235,502
Nonexpendable permanent endowments		466,385		466,385
Unrestricted	(1,824,232)	1,428,799		(395,433)
Total net position	9,057,272	3,140,003	-	12,197,275
Total liabilities, deferred inflows of resources, and net position	$ 52,162,380	$ 3,140,003	$ -	$ 55,302,383

Note U - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2020			
	Hospital	Foundation	Eliminations	Combined
Operating revenue				
Net patient service revenue	$ 39,253,614	$ -	$ -	$ 39,253,614
Other revenues	1,506,522			1,506,522
Total operating revenues	40,760,136	-	-	40,760,136
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	26,089,393			26,089,393
Supplies and other	17,635,183			17,635,183
Depreciation and amortization	2,692,926			2,692,926
Total operating expenses	46,417,502	-	-	46,417,502
Operating loss	(5,657,366)	-	-	(5,657,366)
Nonoperating revenues (expenses)	3,994,664	(241,645)	483,918	4,236,937
Excess of revenues over (under) expenses	(1,662,702)	(241,645)	483,918	(1,420,429)
Capital grants and contributions	619,784	199,916	(483,918)	335,782
Change in net position	(1,042,918)	(41,729)	-	(1,084,647)
Net position at beginning of year	10,100,190	3,181,732		13,281,922
Ending net position	$ 9,057,272	$ 3,140,003	$ -	$ 12,197,275

	Statement of Cash Flows - 2020			
	Hospital	Foundation	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ 3,583,907	$ (239)	$ (98,367)	$ 3,485,301
Noncapital financing activities	9,461,316	(572,524)	582,285	9,471,077
Capital and related financing activities	(5,296,031)		53,995	(5,242,036)
Investing activities	54,318	548,806	(537,913)	65,211
Net change in cash and cash equivalents	7,803,510	(23,957)	-	7,779,553
Cash and cash equivalents at beginning of year	5,907,329	451,520		6,358,849
Cash and cash equivalents at end of year	$ 13,710,839	$ 427,563	$ -	$ 14,138,402

Required Supplementary Information

William Newton Memorial Hospital
Schedule of Hospital's Proportionate Share of
the Net Defined Pension Plan Liability
December 31,

	2021	2020	2019	2018	2017	2016	2015	2014
Hospital's proportion of the net pension liability	0.9878%	0.9428%	0.8365%	0.7903%	0.8109%	0.7873%	0.7764%	0.7474%
Hospital's proportionate share of the net pension liability	$ 11,852,603	$ 16,344,456	$ 11,688,628	$ 11,015,025	$ 11,746,106	$ 12,179,176	$ 10,193,989	$ 9,198,875
Hospital's covered employee payroll	18,445,281	18,959,517	16,494,646	14,754,723	13,778,222	13,896,008	13,351,842	12,609,706
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	64.26%	86.21%	70.86%	74.65%	85.25%	87.65%	76.35%	72.95%
Plan fiduciary net position as a percentage of the total pension liability	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%

William Newton Memorial Hospital
Schedule of Hospital Contributions to Defined Pension Plan
December 31,

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 1,636,096	$ 1,632,414	$ 1,466,374	$ 1,237,921	$ 1,165,638	$ 1,275,654	$ 1,265,755	$ 1,114,698	$ 940,601	$ 796,346
Contributions in relation to the contractually required contribution	(1,636,096)	(1,632,414)	(1,466,374)	(1,237,921)	(1,165,638)	(1,275,654)	(1,265,755)	(1,114,698)	(940,601)	(796,346)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	$ 18,445,281	$ 18,959,517	$ 16,494,646	$ 14,754,723	$ 13,778,222	$ 13,896,008	$ 13,351,842	$ 12,609,706	$ 11,846,360	$ 10,849,401
Contributions as a percentage of covered-employee payroll	8.87%	8.61%	8.89%	8.39%	8.46%	9.18%	9.48%	8.84%	7.94%	7.34%

William Newton Memorial Hospital
Schedule of Changes in Hospital's
Total OPEB Liability and Related Ratios
December 31,

	2021	2020	2019	2018	2017
Service cost	$ 72,023	$ 54,513	$ 48,553	$ 48,120	$ 58,290
Interest on total OPEB liability	11,358	17,074	18,405	18,989	16,461
Changes in benefit terms	(79,745)	(51,925)	(4,434)	(5,282)	
Effect of assumption changes or inputs	647	23,739	6,322	(5,155)	(14,231)
Benefit payments	(34,765)	(34,765)	(89,792)	(133,750)	(62,032)
Net change in total OPEB liability	(30,482)	8,636	(20,946)	(77,078)	(1,512)
Total OPEB liability, beginning	459,186	450,550	471,496	548,574	550,086
Total OPEB liability, ending	$ 428,704	$ 459,186	$ 450,550	$ 471,496	$ 548,574
Covered payroll	$17,455,000	$17,001,000	$14,161,000	$13,254,000	$13,973,000
Total OPEB liability as a percent of covered payroll	2.46%	2.70%	3.18%	3.56%	3.93%

Supplementary Information

William Newton Memorial Hospital
Schedule of Expenditures of Federal Awards
December 31, 2021

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through entity identifying number	Expenditures	Passed through to subrecipients
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	N/A	$ 4,893,841	$ -
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A	301,464	
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A	167,188	
Total U.S. Department of Health and Human Services			5,362,493	-
U.S. Department of Treasury				
Passed through Kansas Department of Health and Environment				
COVID-19 State and Local Fiscal Recovery Fund	21.027	N/A	92,735	
Total U.S. Department of Treasury			92,735	-
Total federal awards			$ 5,455,228	$ -

William Newton Memorial Hospital
Notes to Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grants award activity of William Newton Memorial Hospital (the Hospital) under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the 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 Uniform Guidance. The Hospital's federal expenditures do not include indirect administrative expenses.

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

John R. Helms, CPA · Adam C. Crouch, CPA
Tyler R. Crow, CPA · Stephanie D. Kennedy, CPA
Joshua A. Wisenbaker, CPA

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

Board of Trustees
William Newton Memorial Hospital

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 William Newton Memorial Hospital (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 as listed in the table of contents, and have issued our reported thereon dated September 30, 2022. The financial statements of the blended component unit, William Newton Healthcare Foundation, Inc., were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting in internal control over financial reporting or instances of reportable noncompliance associated with the blended component unit, William Newton Healthcare Foundation, Inc.

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 opinions 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 have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

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*.

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

The Hospital's Response to Findings

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Wendling Noe Nolan & Johnson LLC

Topeka, Kansas
September 30, 2022

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

John R. Helms, CPA · Adam C. Crouch, CPA
Tyler R. Crow, CPA · Stephanie D. Kennedy, CPA
Joshua A. Wisenbaker, CPA

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

Board of Trustees
William Newton Memorial Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 30, 2022

William Newton Memorial Hospital
Schedule of Findings and Questioned Costs
December 31, 2021

Section I - Summary of Auditor's Results

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

Identification of major programs

Assistance listing number	Name of Program
93.498	Provider Relief Fund

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

Section II - Financial Statement Findings

2021-001 Estimated cost report settlements

Identification: Material weakness in internal control over financial reporting

Criteria: SAS 115 requires communication in writing to management and those charged with governance material weakness in internal control over financial reporting identified in an audit.

Condition: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles. The Hospital is a critical access hospital (CAH) for purposes of the Medicare program. As such, services rendered to Medicare beneficiaries 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. Under generally accepted accounting principles, patients accounts receivable and patient revenue are reduced to the net amounts expected to be received, and settlements expected for unsettled cost reports reflect management's estimate of such

amounts after possible adjustments by the Medicare administrative contractor. The amounts due from third party payors and patient revenue were overstated at December 31, 2021 prior to the posting of an audit adjusting journal entry.

Cause: The Hospital year-end procedures did not include estimating procedures for the Medicare cost report estimate for the year ended December 31, 2021.

Effect: An audit adjusting journal entry was posted to decrease the amount due from third party payors and patient service revenue by $205,000. There is a reasonable possibility that future material misstatements of the financial statements will not be prevented, detected, and corrected on a timely basis.

Repeat Finding: N/A

Recommendations: We recommend that the Hospital review its policy for estimating its monthly payment position with the Medicare program to determine if it is sufficient for internal reporting purposes.

Views of Responsible Officials: We will continue to monitor interim payments based on a comparison of current year Medicare volumes and payments with the prior year. We will consider having an interim cost report prepared annually if we believe it to be beneficial.

Section III – Federal Award Findings and Questioned Costs

None