Trego County-Lemke Memorial Hospital

A Component Unit of Trego County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2023 and 2022

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Independent Auditor's Report

Board of Trustees
Trego County-Lemke Memorial Hospital
WaKeeney, Kansas

Opinion

We have audited the financial statements of Trego County-Lemke Memorial Hospital, a component unit of Trego County, Kansas, as of and for the year ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Trego County-Lemke Memorial Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Trego County-Lemke Memorial Hospital as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Trego County-Lemke Memorial Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 16* to the financial statements, during the year ended December 31, 2023, Trego County-Lemke Memorial Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Trego County-Lemke Memorial Hospital's ability to continue as a going concern for 12 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 Trego County-Lemke Memorial Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Trego County-Lemke Memorial Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Forvis Mazars, LLP

Wichita, Kansas
June 27, 2024

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Balance Sheets
December 31, 2023 and 2022

	2023	2022 (As Restated)
Assets		
Current Assets		
Cash and cash equivalents	$ 514,723	$ 1,509,250
Patient accounts receivable, net of allowance; 2023 - $634,554, 2022 - $389,002	1,816,607	1,722,877
Other receivables	1,077,251	185,534
Estimated amounts due from third-party payers	211,853	473,697
Supplies	201,661	203,284
Prepaid expenses and other	210,710	162,316
Total current assets	4,032,805	4,256,958
Assets Limited as to Use	4,585,204	4,487,110
Capital Assets, Net	3,092,149	3,093,175
Lease Assets, Net	383,480	461,128
Subscription Assets, Net	732,605	1,172,169
Total assets	$ 12,826,243	$ 13,470,540

	2023	2022 (As Restated)
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 11,095	$ 6,941
Current portion of lease liabilities	63,991	60,876
Current portion of subscription liability	453,774	431,794
Accounts payable	364,643	436,104
Accrued salaries, wages, and benefits	392,573	518,748
Accrued paid time off	745,151	795,746
Total current liabilities	2,031,227	2,250,209
Other Liabilities		
Lease liabilities	335,255	407,092
Subscription liability	315,280	769,054
Total other liabilities	650,535	1,176,146
Total liabilities	2,681,762	3,426,355
Net Position		
Net investment in capital assets	3,028,839	3,050,715
Unrestricted	7,047,548	6,973,732
Restricted - expendable for specific operating activities	68,094	19,738
Total net position	10,144,481	10,044,185
Total liabilities and net position	$ 12,826,243	$ 13,470,540

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022 (As Restated)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 - $459,170, 2022 - $230,297	$ 14,999,521	$ 15,550,128
Other	1,809,720	1,495,416
Total operating revenues	16,809,241	17,045,544
Operating Expenses		
Salaries and wages	8,665,539	9,233,291
Employee benefits	2,542,678	2,662,325
Supplies and other	6,049,781	7,020,316
Depreciation and amortization	1,038,144	983,638
Total operating expenses	18,296,142	19,899,570
Operating Loss	(1,486,901)	(2,854,026)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Trego County	700,000	700,000
Noncapital grants and gifts	9,921	295,170
Interest income	127,155	26,839
Interest expense	(78,629)	(87,749)
Gain (loss) on disposal of capital assets	(12,132)	9,733
Grant revenue	886,500	-
Transfer to Trego County	(157,300)	-
Provider Relief Funds (*CARES Act*)	-	1,278,742
Total nonoperating revenues	1,475,515	2,222,735
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(11,386)	(631,291)
Capital Grants and Gifts	111,682	158,597
Increase (Decrease) in Net Position	100,296	(472,694)
Net Position, Beginning of Year	10,044,185	10,516,879
Net Position, End of Year	$ 10,144,481	$ 10,044,185

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022 (As Restated)
Operating Activities		
Receipts from and on behalf of patients	$ 15,434,372	$ 15,337,954
Payments to suppliers and contractors	(6,168,013)	(7,178,893)
Payments to employees	(11,384,987)	(11,745,046)
Other receipts, net	1,537,766	1,352,558
Net cash used in operating activities	(580,862)	(2,233,427)
Noncapital Financing Activities		
Noncapital appropriations - Trego County	700,000	700,000
Transfers - Trego County	(157,300)	-
Noncapital grants and gifts	9,921	295,170
Net cash provided by noncapital financing activities	552,621	995,170
Capital and Related Financing Activities		
Capital grants and gifts	111,682	158,597
Principal paid on long-term debt	-	(26,754)
Principal paid on leases payable	(68,722)	(34,018)
Principal paid on subscription liability	(431,794)	(410,885)
Interest paid on subscription liability	(48,501)	(44,552)
Interest paid on long-term debt	(30,128)	(43,197)
Proceeds from disposal of equipment	2,503	12,300
Purchases of capital assets	(530,387)	(370,832)
Net cash used in capital and related financing activities	(995,347)	(759,341)
Investing Activities		
Interest income received	127,155	26,839
Net cash provided by investing activities	127,155	26,839
Decrease in Cash	(896,433)	(1,970,759)
Cash, Beginning of Year	5,996,360	7,967,119
Cash, End of Year	$ 5,099,927	$ 5,996,360

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Statements of Cash Flows – Continued
Years Ended December 31, 2023 and 2022

	2023	2022 (As Restated)
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 514,723	$ 1,509,250
Cash in noncurrent cash	4,585,204	4,487,110
Total cash	$ 5,099,927	$ 5,996,360
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,486,901)	$ (2,854,026)
Grant revenues	886,500	-
Depreciation and amortization	1,038,144	983,638
Provision for uncollectible accounts	459,170	230,297
Change in operating assets and liabilities		
Patient accounts receivable	(552,900)	(206,281)
Estimated amounts due from and to third-party payers	261,844	(462,942)
Other receivables	(891,717)	83,894
Supplies	1,623	(9,365)
Prepaid expenses and other	(48,394)	(22,336)
Accounts payable	(71,461)	(126,876)
Accrued expenses	(176,770)	150,570
Net cash used in operating activities	$ (580,862)	$ (2,233,427)
Supplemental Cash Flows Information		
Lease obligations incurred for lease assets	$ -	$ 167,691
Capital asset additions in accounts payable	11,201	26,874

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Trego County-Lemke Memorial Hospital (Hospital) provides acute, long-term care services, rural health clinic services and assisted living services. The Hospital was created by statute and its Board of Trustees is appointed by the Trego County Board of Commissioners. The Hospital is located in WaKeeney, Kansas and is considered a component unit of Trego County (County). The Hospital is licensed as a Critical Access Hospital (CAH) with a bed capacity of 25 beds.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2023 and 2022, the hospital does not have any cash equivalents.

Noncapital Appropriations – Trego County

The Hospital received approximately 4% in 2023 and 2022 of its financial support from noncapital appropriations from the County property tax levy. These funds were used to support operations in both years.

Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Revenue from property taxes is recognized in the year for which the taxes are levied.

Risk Management

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

Noncurrent Cash

Noncurrent cash include (1) assets restricted by donors for specific operating activities, and (2) assets set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its direction subsequently use for other purposes.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10-15 years
Buildings	35-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made before, the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

The Hospital evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease, or subscription asset has occurred. If a capital, lease, or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or accumulated amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital, lease, and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by donors external to the Hospital. Unrestricted net position is remaining assets less remaining liabilities that do not meet the above conditions.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Provider Relief Funds (CARES Act)

On March 27, 2020, the *CARES Act* was signed into law as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the U.S. Department of Health and Human Services (HHS). The distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS. The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Note 2. Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a critical access hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment. Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 72% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

	2023	2022
Gross patient service revenue	$ 19,725,339	$ 19,849,435
Contractual adjustments		
Medicare	(3,153,133)	(2,652,897)
Medicaid	212,550	(34,354)
Blue Cross	(650,546)	(719,255)
Other	(550,972)	(506,580)
Administrative adjustments	(100,896)	(73,040)
Charity care	(23,651)	(82,884)
Provision for uncollectible accounts	(459,170)	(230,297)
	$ 14,999,521	$ 15,550,128

Note 3. Deposits

Deposits

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

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

At December 31, 2023 and 2022, respectively, $4,554,038 and $5,992,587 of the Hospital's bank balances of $5,475,698 and $6,418,094 was exposed to custodial credit risk as follows:

	2023	2022
Exposed to Custodial Risk	$ 4,554,038	$ 5,992,587
Bank Balances	$ 5,475,698	$ 6,418,094

Summary of Carrying Amounts

The carrying amounts of deposits are included in the Hospital's balance sheets as follows:

	2023	2022
Carrying value of deposits	$ 5,099,927	$ 5,996,360
Included in the following balance sheet captions		
Cash	$ 514,723	$ 1,509,250
Assets Limited as to Use	4,585,204	4,487,110
	$ 5,099,927	$ 5,996,360

Note 4. Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2023	2022
Medicare	$ 1,255,355	$ 1,040,491
Medicaid	47,029	87,519
Blue Cross	(10,535)	(13,622)
Other third-party payers	263,230	298,101
Self-pay	896,082	699,390
	2,451,161	2,111,879
Less allowance for uncollectible accounts	(634,554)	(389,002)
	$ 1,816,607	$ 1,722,877

Note 5. Capital, Lease, and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,500	$ -	$ -	$ -	$ 2,500
Land improvements	108,934	29,950	-	-	138,884
Buildings	7,323,569	-	(20,657)	-	7,302,912
Fixed equipment	3,037,205	368,828	-	-	3,406,033
Moveable equipment	4,358,905	126,319	(49,000)	36,874	4,473,098
Construction in progress	224,343	9,444	-	(36,874)	196,913
	15,055,456	534,541	(69,657)	-	15,520,340
Less accumulated depreciation					
Land improvements	(108,934)	(832)	-	-	(109,766)
Buildings	(5,944,634)	(160,417)	6,022	-	(6,099,029)
Fixed equipment	(2,746,964)	(39,281)	-	-	(2,786,245)
Moveable equipment	(3,161,749)	(320,402)	49,000	-	(3,433,151)
	(11,962,281)	(520,932)	55,022	-	(12,428,191)
Capital assets, net	$ 3,093,175	$ 13,609	$ (14,635)	$ -	$ 3,092,149

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,500	$ -	$ -	$ -	$ 2,500
Land improvements	108,934	-	-	-	108,934
Buildings	7,323,569	-	-	-	7,323,569
Fixed equipment	3,037,205	-	-	-	3,037,205
Moveable equipment	4,262,147	311,894	(215,136)	-	4,358,905
Construction in progress	138,531	85,812	-	-	224,343
	14,872,886	397,706	(215,136)	-	15,055,456
Less accumulated depreciation					
Land improvements	(108,921)	(13)	-	-	(108,934)
Buildings	(5,782,161)	(162,473)	-	-	(5,944,634)
Fixed equipment	(2,710,788)	(36,176)	-	-	(2,746,964)
Moveable equipment	(3,069,764)	(304,554)	212,569	-	(3,161,749)
	(11,671,634)	(503,216)	212,569	-	(11,962,281)
Capital assets, net	$ 3,201,252	$ (105,510)	$ (2,567)	$ -	$ 3,093,175

Lease assets activity for the years ended December 31 was:

	2023			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 334,295	$ -	$ -	$ 334,295
Moveable equipment	167,691	-	-	167,691
	501,986	-	-	501,986
Less accumulated amortization	(40,858)	(77,648)	-	(118,506)
Lease assets, net	$ 461,128	$ (77,648)	$ -	$ 383,480

	2022			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 334,295	$ -	$ -	$ 334,295
Moveable equipment	-	167,691	-	167,691
	334,295	167,691	-	501,986
Less accumulated amortization	-	(40,858)	-	(40,858)
Lease assets, net	$ 334,295	$ 126,833	$ -	$ 461,128

Subscription assets activity for the year ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,611,733	$ -	$ -	$ -	$ 1,611,733
Less accumulated amortization Subscription IT assets	(439,564)	(439,564)	-	-	(879,128)
Subscription Assets, Net	$ 1,172,169	$ (439,564)	$ -	$ -	$ 732,605

	2022 - *Restated*				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,611,733	$ -	$ -	$ -	$ 1,611,733
Less accumulated amortization Subscription IT assets	-	(439,564)	-	-	(439,564)
Subscription Assets, Net	$ 1,611,733	$ (439,564)	$ -	$ -	$ 1,172,169

Note 6. 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $1,303,156 and $1,131,471 for the years ending December 31, 2023 and 2022, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of $877,243 and $893,076 for the years ending December 31, 2023 and 2022, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 7. Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. The policy has limits of $200,000 per occurrence up to an annual aggregate of $600,000. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8. Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt	$ 6,941	$ 28,042	$ (23,888)	$ 11,095	$ 11,095
Lease liabilities	467,968	-	(68,722)	399,246	63,991
Subscription liabilities	1,200,848	-	(431,794)	769,054	453,774
	$ 1,675,757	$ 28,042	$ (524,404)	$ 1,179,395	$ 528,860

	2022 - *Restated*				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt	$ 33,695	$ -	$ (26,754)	$ 6,941	$ 6,941
Lease liabilities	334,295	167,691	(34,018)	467,968	60,876
Subscription liabilities	1,611,733	-	(410,885)	1,200,848	431,794
	$ 1,979,723	$ 167,691	$ (471,657)	$ 1,675,757	$ 499,611

Lease Liabilities

The Hospital leases property and equipment, the terms of which expire in various years through 2031.

The following is a schedule by year of payments under the leases as of December 31, 2023:

Year Ending December,	Total To Be Paid	Principal	Interest
2024	$ 82,500	$ 63,991	$ 18,509
2025	79,900	64,643	15,257
2026	76,260	64,187	12,073
2027	70,611	61,811	8,800
2028	42,372	35,958	6,414
2029-2031	116,523	108,656	7,867

Subscription Liabilities

The Hospital has one subscription-based information technology arrangement (SBITA), the term of which expires in 2025. The subscription requires monthly payments of approximately $40,000.

The following is a schedule by year of payments under the SBITA as of December 31, 2023:

Year Ending December,	Total To Be Paid	Principal	Interest
2024	$ 480,000	$ 453,774	$ 26,226
2025	320,000	315,280	4,720

Note 9. Revenue Pledge Agreement

The Hospital has entered into a revenue pledge agreement with the County to fund a portion of the County's bond debt service. In February 2022, the County issued $12,870,000 in Series 2022 General Obligation Refunding and Improvement Bonds. The bond proceeds will be used to make various improvements to the Hospital, however, the County is the legal obligor of the bonds. The Hospital has pledged to pay a portion of the annual debt service from its revenues. Under the revenue pledge agreement, the County will contribute a minimum of $458,530 each year for debt service. Annual debt service will range from approximately $260,000 to $930,000 over the life of the bonds. For the amounts in excess of the County's contribution, the Hospital has entered into a pledge of revenues agreement with the County for the remaining annual debt service. Under the terms of the pledge agreement, the Hospital has certain restrictions related to obtaining future borrowings or making additional pledges of its revenues while the bonds remain outstanding.

Annual debt service for the period of September 2023 through August 2024 is $930,400. The hospital began making monthly payments of $39,325 in September 2023 to Trego County to cover the hospital's revenue pledge commitment for the period of September 2023 through August 2024. Monthly transfers to Trego County are recorded as Transfers to Trego County in the statements of revenue, expenses and changes in net position, the amount of monthly transfers will adjust annually each September until the revenue pledge agreement expires.

Note 10. Pension Plans

Defined Contribution Plans

The Hospital maintains a contributory pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older and have completed one year of service. Employer contributions are computed at the rate of 4.5% of annual compensation plus 9% of the excess over $7,800. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5% of the excess over $7,800. Benefits are funded by an annuity contract with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits vest after one year of service with 100% vesting after five years of service. In case of the death or termination of an employee prior to retirement, all funds contributed by the Hospital, which are not vested, will be returned to the Hospital. Contributions actually made by plan members totaled $483,773 and $545,896 in 2023 and 2022, respectively. Hospital contributions totaled $609,468 and $627,408 in 2023 and 2022, respectively.

The Hospital provides a 403(b) plan to substantially all employees of the Hospital. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are always 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. The Hospital does not make contributions to the 403(b) plan.

Deferred Compensation Plan

The Hospital maintains a 457 plan for all eligible employees. Eligibility is established by all employees who elect to participate in the plan by executing a written participation agreement. The employee may contribute up to $7,500 of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25% of their gross compensation per year. Benefits are funded by fixed and variable annuities with an insurance company. The Hospital does not make contributions to the 457 plan.

Note 11. Management/Services Agreement

The Board of Trustees of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management and data processing services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital totaled $788,252 and $777,892 in 2023 and 2022, respectively. Amounts included in accounts payable related to these services totaled $0 and $2,198 at December 31, 2023 and 2022, respectively.

Note 12. Trego Hospital Endowment Foundation, Inc.

The Trego Hospital Endowment Foundation, Inc. (Foundation) is a not-for-profit corporation established to improve medical services to the patients in the area served by the Hospital. The Foundation is not considered a component unit of the Hospital. Foundation contributions to the Hospital of $16,845 and $20,009 in 2023 and 2022, respectively, have been included in the Hospital's statements of revenues, expenses and changes in net position as capital grants and gifts.

Note 13. Great Plains Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No such insurance assessment was administered to the Hospital for the years ended December 31, 2023 and 2022, and management does not anticipate that an assessment will be required for the plan year ended June 30, 2024.

Note 14. COVID-19 Pandemic and *CARES Act* Funding

On March 22, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

Provider Relief Fund

During the years ended December 31, 2023 and 2022, the Hospital received $0 of distributions from the *CARES Act* Provider Relief Fund (collectively the Provider Relief Fund). These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Hospital accounts for such payments as voluntary nonexchange transactions. As such, payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2023 and 2022, the Hospital recognized $0 and $1,278,242, respectively, related to the Provider Relief Fund, rural health clinic testing and SPARK funds, and these payments are recorded as nonoperating revenues – *CARES Act* funding in the statements of revenues, expenses and changes in net position.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions the Hospital's ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During fiscal year 2020, the Hospital requested accelerated Medicare payments as provided for in the *CARES Act*, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals, such as the Hospital. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withheld amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

During the year ended December 31, 2020, the Hospital received $2,295,499 from these accelerated Medicare payment requests. During the year ended December 31, 2022, the Hospital paid off the Medicare accelerated payments in full.

Note 15. Employee Retention Credit

In response to the economic impact of the COVID-19 pandemic, Congress introduced the Employee Retention Credit (ERC). The ERC is a refundable payroll tax credit available to entities who experienced either a full or partial suspension of business operations due to government orders or had a significant drop in gross receipts during 2020. The credit is available for 50 percent of qualified wages for 2020 with a maximum potential credit per qualified employee of $5,000.

The Hospital qualifies for the ERC based on a partial shutdown of its long-term care operations and has elected to account for the ERC as a government grant by analogy to IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under IAS 20, the ERC may be recognized once there is reasonable assurance that the Company will comply with the conditions attached to the ERC and the ERC will be received. During 2020, the Company incurred qualifying wages and has recognized $886,500 associated with the ERC as grant income in the 2023 statement of revenues, expenses and changes in net position and a corresponding receivable in the 2023 balance sheet.

Note 16. Adoption of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*

Effective January 1, 2023, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for information technology subscriptions by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain subscription assets and liabilities for subscriptions that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. As a result, the Hospital was required to retroactively restate December 31, 2022, amounts as follows:

	As Restated	Previously Reported	Effect of Adoption
Balance Sheet			
Subscription assets, net	$ 1,172,169	$ -	$ 1,172,169
Total assets	13,470,540	12,298,371	1,172,169
Current portion of subscription liability	431,794	-	431,794
Total current liabilities	2,250,209	1,818,415	431,794
Subscription liability	769,054	-	769,054
Total liabilities	3,426,355	2,225,507	1,200,848
Net position - net investment in capital assets	3,050,715	3,086,234	(35,519)
Net position - unrestricted	6,973,732	6,966,892	6,840
Total net position	10,044,185	10,072,864	(28,679)
Total liabilities and net position	13,470,540	12,298,371	1,172,169
Statements of Revenues, Expenses and Changes in Net Position			
Supplies and other	$ 7,020,316	$ 7,500,316	$ (480,000)
Depreciation and amortization	983,638	544,074	439,564
Total operating expenses	19,899,570	19,940,006	(40,436)
Operating loss	(2,854,026)	(2,894,462)	40,436
Interest expense	(87,749)	(18,634)	(69,115)
Total nonoperating revenues	2,222,735	2,291,850	(69,115)
Increase (decrease) in net position	(472,694)	(444,015)	(28,679)
Net position, end of year	10,044,185	10,072,864	(28,679)
Statements of Cash Flows			
Payments to suppliers and contractors	$ (7,178,893)	$ (7,658,893)	$ 480,000
Net cash used in operating activities	(2,233,427)	(2,713,427)	480,000
Principal paid on subscription liability	(410,885)	-	(410,885)
Interest paid on subscription liability	(43,197)	-	(43,197)
Net cash used in capital and related financing activities	(759,341)	(279,341)	(480,000)
Operating loss	(2,854,026)	(2,894,462)	40,436
Depreciation and amortization	983,638	544,074	439,564
Net cash used in operating activities	(2,233,427)	(2,713,427)	480,000