Independent Auditor's Report and Financial Statements

Lincoln County Hospital

March 31, 2024 and 2023

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Lincoln County Hospital
Management's Discussion and Analysis
Years ended March 31, 2024 and 2023

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2024 and 2023. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of $1,137,405 in 2024, $973,528 in 2023, and $686,895 in 2022. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position decreased by $595,817 in 2024 and increased by $86,248 in 2023.

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, and resources held by or for the benefit of the Hospital.

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. 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 the 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. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, 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, deferred outflows, liabilities, and net position

Table 1 below summarizes the Hospital's assets, deferred outflows, liabilities, and net position for the last three fiscal years.

Table 1: Assets, Deferred Outflows, Liabilities, and Net Position

	2024	2023	2022
Assets			
Current assets	$3,050,039	$3,464,225	$4,040,674
Capital assets, net	2,621,508	3,014,849	3,115,024
Other noncurrent assets	440,829	471,671	483,029
Total assets	6,112,376	6,950,745	7,638,727
Deferred outflows of resources on advance refunding	115,941	135,849	157,125
Liabilities			
Current liabilities	1,027,459	921,527	1,404,414
Noncurrent liabilities	3,446,502	3,814,894	4,127,513
Total liabilities	4,473,961	4,736,421	5,531,927
Total net position	$1,754,356	$2,350,173	$2,263,925

Beginning in March 2020, the Hospital, along with all health care providers in the United States, was impacted by the worldwide coronavirus pandemic. In response, the Coronavirus Aid, Relief, and Economic Security 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 several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to the pandemic. The revenues and expenses associated with the various COVID-19 support programs implemented as a result of the pandemic were fully expended by March 31, 2023.

Our ratio of current assets to current liabilities was 3.0, 3.8, and 2.9 for 2024, 2023, and 2022, respectively. Current assets are impacted by the payment position with Medicare, change in net accounts receivable, and the change in current liabilities.

The Hospital's capital acquisitions were $167,636, $428,603, and $810,329 during 2024, 2023, and 2022, respectively. The remaining change in capital assets, net, results from the normal annual depreciation and amortization provisions of $560,977, $528,778, and $507,136 during 2024, 2023, and 2022, respectively.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, and funds set aside for future replacement of capital assets. These balances will change as tax appropriations and contributions are received.

The board-designated funds increased by $12,346 in 2024 after an increase of $1,446 in 2023. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

Operating results and changes in net position

In 2024, the Hospital's net position decreased by $595,817. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	2024	2023	2022
Operating revenues			
Net patient service revenue	$6,545,241	$6,855,879	$6,801,074
Other operating revenue	524,031	487,749	475,715
Total operating revenues	7,069,272	7,343,628	7,276,789
Operating expenses			
Salaries and benefits	3,809,839	3,852,859	3,807,921
Supplies and other	3,835,861	3,935,519	3,648,627
Depreciation and amortization	560,977	528,778	507,136
Total operating expenses	8,206,677	8,317,156	7,963,684
Operating loss	(1,137,405)	(973,528)	(686,895)
Nonoperating revenues net of expenses and contributions for capital	541,588	1,059,776	2,891,083
Change in net position	$ (595,817)	$ 86,248	$2,204,188

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2024, the Hospital's operating loss increased by $163,877 in comparison to 2023, while in 2023 the operating loss increased by $286,633 in comparison to 2022. The Hospital's net patient service revenue in 2024 decreased by 4.5 percent and in 2023 increased by 0.8 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and to a greater extent, the change in Medicare reimbursable costs. The change in net revenues was accompanied with a 1.3 percent decrease in operating expenses during 2024, and a 4.4 percent increase in 2023.

The Hospital received 75 percent and 77 percent of its net patient revenue from the Medicare program in 2024 and 2023, respectively, with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program.

Employee salaries, wages, and benefits decreased by $43,020 or 1.1 percent in 2024, and increased by $44,938 or 1.2 percent in 2023, as compared with the previous year. The change in salaries is driven by two factors. The change in full-time equivalent employees (FTEs) and changes in employee hourly wages. The Hospital employed an average of 45 FTEs during 2024, a decrease of 3 FTEs from 2023. FTEs for 2023 decreased by 2 from 2022. FTEs were lower in 2024 due to staffing vacancies and the utilization of contract labor to provide coverage. Salaries, wages, and employee benefits represent 58.2 percent, 56.2 percent, and 56.0 percent of total net patient service revenue in 2024, 2023, and 2022, respectively. Employee benefits as a percentage of salary and wage expense were 28.2 percent in 2024, 28.4 percent in 2023, and 26.5 percent in 2022.

Supplies and other expenses decreased by $99,658 in 2024, increased by $286,892 in 2023, and increased by $341,608 in 2022.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high-quality health care services to our patients. The tax appropriations received increased by $10,500 in 2024. The Hospital also recognized $637,110 and $1,765,656 of COVID-19 grant funds in 2023 and 2022, respectively. In addition, the Hospital recognized SBA PPP loan forgiveness of $678,787 in 2022.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.

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Independent Auditor's Report

Board of Trustees
Lincoln County Hospital

Opinion

We have audited the accompanying financial statements of Lincoln County Hospital (the Hospital), as of and for the years ended March 31, 2024 and 2023, 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 financial position of the business-type activity of Lincoln County Hospital as of March 31, 2024 and 2023, and the changes in net position and 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 audit in accordance with auditing standards generally accepted in the United States of America 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.

Emphasis of Matter

As discussed in Note A1 to the financial statements, the reporting entity no longer includes the Lincoln County Hospital and Healthcare Foundation as a discretely presented component unit. 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 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 will always detect a material misstatement when it exists.

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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 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.

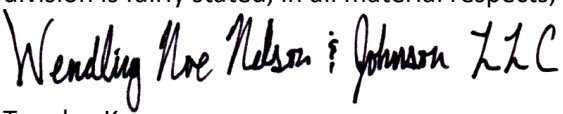
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 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 an opinion on the financial statements as a whole. The accompanying schedules of patient service revenue and operating expenses by functional division are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of patient service revenue and operating expenses by functional division is fairly stated, in all material respects, in relation to the financial statements as a whole.



Topeka, Kansas
July 26, 2024

Financial Statements

Lincoln County Hospital
Statements of Net Position
March 31, 2024 and 2023

Assets and Deferred Outflows of Resources

	2024	2023
Current assets		
Cash	$1,542,367	$2,475,673
Assets limited as to use	224,449	264,162
Accounts receivable, net of allowance for uncollectible accounts of $100,215 in 2024 and $112,155 in 2023	491,659	468,207
Other receivables	47,253	56,750
Inventories	169,311	190,313
Prepaid expenses and other		9,120
Estimated third-party payor settlements	575,000	
Total current assets	3,050,039	3,464,225
Assets limited as to use		
By Board of Trustees		
For operations	19,013	13,427
For debt service reserve	370,124	364,187
For capital assets	51,652	50,829
By Public Building Commission	224,489	307,390
	665,278	735,833
Less amounts required to meet current obligations	224,449	264,162
	440,829	471,671
Capital assets		
Capital assets not being depreciated	21,725	22,473
Capital assets, net of accumulated depreciation	2,323,628	2,621,955
Leased assets, net of accumulated amortization	276,155	370,421
Capital assets, net	2,621,508	3,014,849
Total assets	6,112,376	6,950,745
Deferred outflows of resources		
Deferred outflows on advance refunding	115,941	135,849
Total assets and deferred outflows of resources	$6,228,317	$7,086,594

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2024	2023
Current liabilities		
Current maturities of long-term obligations	$ 265,000	$ 255,000
Current maturities of lease liabilities	84,795	93,503
Accounts payable and other accrued liabilities	163,384	83,150
Salaries payable	171,107	178,814
Payroll taxes payable	78,935	83,591
Vacation benefits payable	121,708	134,274
Other accrued benefits	34,005	39,032
Interest payable	8,525	9,163
Estimated third-party payor settlements	100,000	45,000
Total current liabilities	1,027,459	921,527
Long-term liabilities		
Long-term obligations, less current maturities	3,253,304	3,536,901
Lease liabilities, less current maturities	193,198	277,993
Total long-term liabilities	3,446,502	3,814,894
Total liabilities	4,473,961	4,736,421
Net position		
Invested in capital assets net of related debt	(1,058,848)	(1,012,700)
Restricted for debt service	224,489	307,390
Unrestricted	2,588,715	3,055,483
Total net position	1,754,356	2,350,173
Total liabilities and net position	$6,228,317	$7,086,594

Lincoln County Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years ended March 31, 2024 and 2023

	2024	2023
Operating revenues		
Net patient service revenue	$6,545,241	$6,855,879
Other	524,031	487,749
Total operating revenues	7,069,272	7,343,628
Operating expenses		
Salaries and wages	2,972,792	3,000,763
Employee benefits	837,047	852,096
Supplies and other	3,835,861	3,935,519
Depreciation and amortization	560,977	528,778
Total operating expenses	8,206,677	8,317,156
Operating loss	(1,137,405)	(973,528)
Nonoperating revenues (expenses)		
Tax appropriations	506,500	496,000
Investment income	62,838	50,427
Interest expense	(132,592)	(142,387)
Noncapital grants and contributions	20,345	18,626
Noncapital COVID-19 grants		337,496
Total nonoperating revenues	457,091	760,162
Excess of expenses over revenues before capital grants and contributions	(680,314)	(213,366)
Capital grants and contributions	84,497	
Capital COVID-19 grants		299,614
Change in net position	(595,817)	86,248
Net position beginning of year	2,350,173	2,263,925
Net position end of year	$1,754,356	$2,350,173

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows
Years ended March 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 6,001,789	$ 7,348,190
Payments to or on behalf of employees	(3,839,795)	(3,853,047)
Payments for supplies and services	(3,725,505)	(4,003,837)
Other receipts and payments	533,528	450,675
Net cash used by operating activities	(1,029,983)	(58,019)
Cash flows from noncapital financing activities		
Tax appropriations	506,500	496,000
Noncapital grants and contributions	20,345	(46,642)
Net cash provided by noncapital activities	526,845	449,358
Cash flows from capital and related financing activities		
Purchase of capital assets	(167,636)	(391,103)
Capital grants and contributions	84,497	299,614
Principal paid on lease liabilities	(93,503)	(83,636)
Interest paid on lease liabilities	(21,969)	(24,161)
Principal paid on long-term debt obligations	(255,000)	(250,000)
Interest paid on long-term debt obligations	(109,950)	(117,450)
Net cash used by capital and related financing activities	(563,561)	(566,736)
Cash flows from investing activities		
Change in other investment		(31,077)
Proceeds from other investments		87,109
Investment income received	62,838	50,427
Net cash provided by investing activities	62,838	106,459
Change in cash and cash equivalents	(1,003,861)	(68,938)
Cash and cash equivalents at beginning of year	3,211,506	3,280,444
Cash and cash equivalents at end of year	$ 2,207,645	$ 3,211,506
Reconciliation of cash and cash equivalents		
Cash	$ 1,542,367	$ 2,475,673
Assets limited as to use	665,278	735,833
	$ 2,207,645	$ 3,211,506

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows - Continued
Years ended March 31, 2024 and 2023

	2024	2023
Reconciliation of operating loss to net cash used by by operating activities		
Operating loss	$(1,137,405)	$ (973,528)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	560,977	528,778
Provision for bad debts	189,683	176,065
Changes in		
Accounts receivable	(213,135)	26,661
Estimated third-party payor settlements	(520,000)	289,585
Other receivables	9,497	(37,074)
Inventories	21,002	10,393
Prepaid expenses and other	9,120	(3,208)
Accounts payable and accrued expenses	50,278	(75,691)
Net cash used by operating activities	$(1,029,983)	$ (58,019)
Noncash investing, capital, and financing activities		
Lease liabilities incurred	$ -	$ 37,500

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Notes to Financial Statements
March 31, 2024 and 2023

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

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County. Effective April 1, 2023, the financial statements no longer include the Lincoln County Hospital and Healthcare Foundation as a discretely presented component unit due to changes within the governance of the Foundation. Comparative statements have been updated to exclude the Foundation activity.

2. 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.

3. Basis of accounting

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

4. Cash and cash equivalents

The Hospital considers all cash and highly-liquid debt instruments with maturities of twelve months or less to be considered cash equivalents for purposes of the cash flow statement.

5. 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 the balance of private pay receivables.

6. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out method.

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, and for debt service reserve and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

8. Capital assets

Capital assets are stated at historical cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

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

Lease assets are recognized at the lease commencement date and represent the Hospital's right-to-use an underlying asset for the lease term. Leased assets are measured at the initial value of the lease liability at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement date of the lease, plus and initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method.

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 useful lives of the item or the properties.

9. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an expense or expenditure in a future period.

10. Vacation benefits payable

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

11. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and amortization and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

12. 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, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

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

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

14. Cost of borrowing

Financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

15. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, 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. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

16. Restricted resources

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

17. Charity care

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

18. Income taxes

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

19. Adoption of accounting pronouncement

As of January 1, 2023, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). GASB 96 establishes standards for financial reporting of SBITAs by government end users and defines SBITA as a contract that conveys the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in a contract for a period of time in an exchange or exchange like transaction. Under GASB 96, a SBITA requires a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest period presented (i.e, January 1, 2022). The Hospital assessed SBITAs determining they were not material. Adoption of GASB 96 did not result in changes to previously reported amounts to the financial statements and, therefore, no subscription assets or liabilities were recorded as a result of implementing GASB 96.

20. Subsequent events

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

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 - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2022.

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

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.

A summary of gross and net patient service revenue follows:

	2024	2023
Gross patient service revenue		
Inpatient	$1,477,143	$1,934,494
Outpatient	3,425,768	3,742,267
Physician services	201,657	241,700
Rural health clinic	442,681	451,815
	5,547,249	6,370,276
Third-party contractual adjustments	1,215,471	693,771
Charity care	(12,132)	(9,907)
Other discounts and allowances	(15,664)	(22,196)
Provision for bad debts	(189,683)	(176,065)
Net patient service revenue	$6,545,241	$6,855,879

Revenue from the Medicare program accounted for approximately 75 percent and 77 percent of the Hospital's net patient service revenue during 2024 and 2023, respectively. Laws and regulations governing the Medicare program 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 B - Net Patient Service Revenue - Continued

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy for 2024 and 2023 were $12,132 and $9,907, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was $17,506 and $12,582 for 2024 and 2023, respectively.

Note C - Allowance for Uncollectible Accounts

The Hospital's allowance for uncollectible accounts on amounts due from patients was 75 percent of self-pay accounts receivable as of March 31, 2024 and 2023. The Hospital's net bad debt write-offs were $184,364 and $124,095, for the years ended March 31, 2024 and 2023, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2024 or 2023. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

Note D - 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, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of FDIC 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, or the Federal Home Loan Bank.

At March 31, 2024, the carrying amount of the Hospital's bank deposits were $1,982,880 and the bank balances were $2,085,037. Of the bank balances, $500,000 was covered by federal depository insurance and $1,585,037 was collateralized with securities held by a third-party bank.

Note E - Assets Limited as to Use

The composition of assets limited as to use, which are invested in cash and certificates of deposit, is as follows:

	2024	2023
Board of Trustee funds	$ 440,789	$ 428,443
Under bond agreements	224,489	307,390
Total assets limited as to use	$ 665,278	$ 735,833

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.

Note F - Capital Assets

	Balance March 31, 2023	Transfers and additions	Retirements	Balance March 31, 2024
Capital assets not being depreciated				
Land	$ 19,725	$ -	$ -	$ 19,725
Projects in progress	2,748	(748)		2,000
Total capital assets not being depreciated	22,473	(748)	-	21,725
Capital assets being depreciated				
Land improvements	193,089			193,089
Buildings	2,339,462	15,397		2,354,859
Fixed equipment	5,615,627	5,495		5,621,122
Movable equipment	2,948,419	147,323	3,400	3,092,342
Total capital assets being depreciated	11,096,597	168,215	3,400	11,261,412
Less accumulated depreciation				
Land improvements	165,687	10,749		176,436
Buildings	1,751,533	77,656		1,829,189
Fixed equipment	4,137,531	245,320		4,382,851
Movable equipment	2,419,891	132,986	3,569	2,549,308
Total accumulated depreciation	8,474,642	466,711	3,569	8,937,784
Total capital assets being depreciated, net	2,621,955	(298,496)	(169)	2,323,628
Leased assets being amortized				
Leased equipment	532,525			532,525
Less accumulated amortization				
Leased equipment	162,104	94,266		256,370
Total leased assets being amortized, net	370,421	(94,266)	-	276,155
Capital assets, net	$ 3,014,849	$ (393,510)	$ (169)	$ 2,621,508

Note F - Capital Assets - Continued

	Balance April 1, 2022	Transfers and additions	Retirements	Balance March 31, 2023
Capital assets not being depreciated				
Land	$ 19,725	$ -	$ -	$ 19,725
Projects in progress	23,020	(20,272)		2,748
Total capital assets not being depreciated	42,745	(20,272)	-	22,473
Capital assets being depreciated				
Land improvements	193,089			193,089
Buildings	2,171,741	167,721		2,339,462
Fixed equipment	5,504,538	111,089		5,615,627
Movable equipment	2,815,854	132,565		2,948,419
Total capital assets being depreciated	10,685,222	411,375	-	11,096,597
Less accumulated depreciation				
Land improvements	154,938	10,750		165,687
Buildings	1,686,797	64,736		1,751,533
Fixed equipment	3,897,017	240,513		4,137,531
Movable equipment	2,286,158	133,733		2,419,891
Total accumulated depreciation	8,024,910	449,732	-	8,474,642
Total capital assets being depreciated, net	2,660,312	(38,357)	-	2,621,955
Leased assets being amortized				
Leased equipment	495,025	37,500		532,525
Less accumulated amortization				
Leased equipment	83,058	79,046		162,104
Total leased assets being amortized, net	411,967	(41,546)	-	370,421
Capital assets, net	$ 3,115,024	$ (100,175)	$ -	$ 3,014,849

Note G - Long-term Obligations

Long-term obligations are summarized as follows:

	2024	2023
Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 2.0% to 3.0%; issued on October 6, 2016; in the original amount of $5,330,000; due serially through March 1, 2035	$ 3,410,000	$ 3,665,000
Add net unamortized premium of bonds	108,304	126,901
Less current maturities of long-term debt	(265,000)	(255,000)
Long-term debt, net of current maturities	$ 3,253,304	$ 3,536,901

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

Outstanding at April 1, 2022	$ 3,915,000
Principal payments	(250,000)
Outstanding at March 31, 2023	3,665,000
Principal payments	(255,000)
Outstanding at March 31, 2024	$ 3,410,000

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of $6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds of the Hospital, for the purpose of renovating the Hospital building (the Project). In 2016, these bonds were legally defeased.

On October 6, 2016, the Lincoln County, Kansas, PBC issued $5,330,000 in Refunding Revenue Bonds, Series 2016, on behalf of the Hospital. The proceeds of these bonds were used to advance refund $5,145,000 of the Series 2008 bonds. As a part of this transaction, the Hospital recognized a deferred refunding loss which is reported as a deferred outflow. The refunding loss is being systematically amortized through March 1, 2035. The proceeds from this issue were placed in escrow and were used to (1) on March 1, 2018, advance refund Series 2008 bonds scheduled to mature, inclusive, in the aggregate principal amount of $5,145,000, and (2) pay certain costs related to the issuance of the 2016 bonds.

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC and the County entered into a lease agreement in which the PBC leased the Project to the County for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements. The pledge of revenues agreement also contains a debt service coverage requirement that was not met by the Hospital in 2024.

Note G - Long-term Obligations - Continued

Scheduled annual debt service requirements on the bonds with the Public Building Commission are as follows:

	Principal	Interest	Total
2025	$ 265,000	$ 102,300	$ 367,300
2026	270,000	94,350	364,350
2027	280,000	86,250	366,250
2028	290,000	77,850	367,850
2029	305,000	69,150	374,150
2029-2033	1,640,000	204,450	1,844,450
2034	360,000	10,800	370,800
	$ 3,410,000	$ 645,150	$ 4,055,150

Total interest costs are summarized as follows:

	2024	2023
Interest incurred	$ 131,281	$ 140,986
Amortization of bond premium	(18,597)	(19,875)
Amortization of deferred outflows on advanced refunding	19,908	21,276
Interest expense	$ 132,592	$ 142,387

Note H - Lease Liabilities

Lease liabilities are summarized as follows:

	2024	2023
Equipment lease liability; interest rate of 10.5%; payable in monthly installments of $802 through December 2027	$ 29,734	$ 35,885
Equipment lease liability; interest rate of 7.2%; payable in monthly installments of $2,114 through August 2024	10,385	34,082
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,572 through November 2028	125,354	147,955
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $1,400 through November 2026	35,277	49,494
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,696 through November 2026	77,243	104,080
	277,993	371,496
Less current maturities of leased liabilities	(84,795)	(93,503)
Leased liabilities, net of current maturities	$ 193,198	$ 277,993

Note H - Lease Liabilities - Continued

The following is a summary of changes in the lease liabilities:

Outstanding at April 1, 2022	$ 417,632
Lease liabilities incurred	37,500
Principal payments	(83,636)
Outstanding at March 31, 2023	371,496
Principal payments	(93,503)
Outstanding at March 31, 2024	$ 277,993

Scheduled annual lease liability payments are as follows:

	Principal	Interest	Total
2025	$ 84,795	$ 15,418	$ 100,213
2026	79,330	10,311	89,641
2027	58,119	5,442	63,561
2028	35,628	2,455	38,083
2029	20,121	456	20,577
	$ 277,993	$ 34,082	$ 312,075

Note I - COVID-19 Grant Revenue

COVID-19 grant revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds were used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. The rural health clinic testing grants were used to support coronavirus testing and related expenses in the rural health clinic. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. The Hospital has determined that the conditions have been met for recognizing revenue of $402,764 in 2023. This amount is included in nonoperating revenues and expenses as capital and noncapital grants from COVID-19. The terms and conditions of the programs are complex and subject to interpretation and future reporting requirements. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term. In addition to the provider relief funds and RHC testing funds noted above, the Hospital also received several other reimbursable COVID-19 grants.

Note J - Pension Plan

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2024 and 2023, was $2,389,702 and $2,403,413, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first $7,800 of covered compensation plus 5 percent of the covered compensation exceeding $7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first $7,800 of covered compensation, plus 9 percent of the covered compensation exceeding $7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2024 and 2023, was $178,208 and $190,438, respectively.

Note K - Concentration of Credit Risk

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 patient accounts receivable from patients and third-party payors is as follows:

	2024	2023
Medicare	40.0 %	33.5 %
Medicaid	4.5	3.5
Blue Cross	10.3	10.2
Commercial insurance	22.0	24.6
Self-pay	23.2	28.2
	100.0 %	100.0 %

Note L - Risk Management

For the years ended March 31, 2024 and 2023, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $500,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $1,500,000. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2024, for the policy period from April 1, 2024 to April 1, 2025.

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 or 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 M - Related Party Transactions

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received $506,500 and $496,000 in tax appropriations from Lincoln County in 2024 and 2023, respectively. The Hospital also received $79,175 and $1,000 in contributions from the Lincoln County Hospital and Healthcare Foundation during 2024 and 2023, respectively.

Supplementary Information

Lincoln County Hospital
Patient Service Revenue
Years ended March 31, 2024 and 2023

	2024			2023
	Inpatient	Outpatient	Total	Total
Routine services				
Adults and pediatrics	$ 1,024,100	$ -	$ 1,024,100	$ 1,266,550
Ancillary services				
Operating room				
Radiology, ultrasound, nuclear medicine and mammography	25,438	342,840	368,278	408,488
CT scan and MRI	39,607	639,676	679,283	645,825
Laboratory and blood	126,537	1,043,799	1,170,336	1,360,472
Physical therapy	53,755	303,432	357,187	381,868
Occupational therapy	50,565	183,544	234,109	179,495
Speech therapy	822	11,658	12,480	7,927
Electrocardiology	4,199	63,696	67,895	71,764
Medical supplies	56,164	7,759	63,923	119,407
Pharmacy	90,891	202,949	293,840	442,564
Emergency room	645	509,917	510,562	632,414
Treatment room		78,133	78,133	83,259
Observation care	4,420	38,365	42,785	76,728
Clinic and physician		644,338	644,338	693,515
	453,043	4,070,106	4,523,149	5,103,726
	$ 1,477,143	$ 4,070,106	5,547,249	6,370,276
Less				
Contractual adjustments			1,215,471	693,771
Charity care			(12,132)	(9,907)
Administrative discounts			(15,664)	(22,196)
Provision for bad debts			(189,683)	(176,065)
Net patient service revenue			$ 6,545,241	$ 6,855,879

Lincoln County Hospital
Operating Expenses by Functional Division
Years ended March 31, 2024 and 2023

	2024			2023		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	$ 657,251	$ 1,036,749	$ 1,694,000	$ 718,112	$ 1,014,922	$ 1,733,034
Ancillary services						
Radiology, ultrasound, nuclear medicine, echocardiography, and mammography	261,114	132,799	393,913	218,642	192,808	411,450
CT scan and MRI	4,520	77,128	81,648	5,562	83,575	89,137
Laboratory and blood	135,215	443,511	578,726	166,803	440,858	607,661
Physical therapy		170,914	170,914		166,277	166,277
Occupational therapy		105,344	105,344		89,062	89,062
Speech therapy		18,398	18,398		13,504	13,504
Electrocardiology				1,082	797	1,879
Medical supplies	38,932	48,598	87,530	38,629	43,179	81,808
Pharmacy	18,382	141,005	159,387	15,797	264,754	280,551
340B drug program		363,436	363,436		350,742	350,742
Emergency room	354,445	397,420	751,865	317,540	539,358	856,898
Clinic and physician	400,784	287,650	688,434	419,197	209,425	628,622
Other	4,801		4,801	5,328		5,328
	1,218,193	2,186,203	3,404,396	1,188,580	2,394,339	3,582,919
General services						
Administration and general	35,651	327,100	362,751	58,882	315,610	374,492
Accounting	341,406	473,654	815,060	333,368	417,335	750,703
Plant operations and maintenance	83,753	256,919	340,672	66,793	251,417	318,210
Laundry	31,972	22,340	54,312	32,871	27,438	60,309
Housekeeping	65,565	39,830	105,395	71,174	43,772	114,946
Dietary	180,781	143,456	324,237	173,970	144,058	318,028
Nursing administration	68,250	20,211	88,461	74,183	20,007	94,190
Medical records	107,153	79,229	186,382	120,033	78,153	198,186
Education and activities	43,541	22,960	66,501	47,383	23,695	71,078
Patient care coordination	139,276	56,925	196,201	115,414	38,961	154,375
Employee benefits - other		7,332	7,332		17,908	17,908
Depreciation and amortization		560,977	560,977		528,778	528,778
	1,097,348	2,010,933	3,108,281	1,094,071	1,907,132	3,001,203
	$ 2,972,792	$ 5,233,885	$ 8,206,677	$ 3,000,763	$ 5,316,393	$ 8,317,156