

Independent Auditor's Report and Financial Statements
Trego County-Lemke Memorial Hospital
December 31, 2021 and 2020

Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	20
Notes to the Schedule of Expenditures of Federal Awards	21
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	24
Schedule of Findings and Questioned Costs	26

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Independent Auditor's Report

Board of Trustees
Trego County-Lemke Memorial Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Trego County-Lemke Memorial Hospital (Hospital), a component unit of Trego County, Kansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise 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 activities of the Hospital as of December 31, 2021 and 2020, 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide for the audit of the financial statements as of and for the year ended December 31, 2021. The audit of the financial statements as of and for the year ended December 31, 2020, was not conducted under *Government Auditing Standards*. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
September 15, 2022

Financial Statements

Liabilities and Net Position

	<u>2021</u>	<u>2020</u>
Current liabilities		
Current portion of capital lease obligations	\$ 26,754	\$ 28,561
Accounts payable	536,106	600,977
Accrued salaries, wages, and benefits	453,422	437,942
Accrued compensated absences	710,502	645,639
SBA PPP loan payable		1,878,200
Medicare accelerated payments		2,295,499
Unearned COVID-19 grant revenue	<u>1,278,742</u>	<u>3,970,291</u>
Total current liabilities	<u>3,005,526</u>	<u>9,857,109</u>
Capital leases, net of current portion	<u>6,941</u>	<u>33,695</u>
Total liabilities	<u>3,012,467</u>	<u>9,890,804</u>
Net position		
Invested in capital assets, net of related debt	3,167,557	2,727,578
Unrestricted	<u>7,349,322</u>	<u>3,472,719</u>
Total net position	<u>10,516,879</u>	<u>6,200,297</u>
Total liabilities and net position	<u><u>\$ 13,529,346</u></u>	<u><u>\$ 16,091,101</u></u>

Trego County-Lemke Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Operating revenues		
Net patient service revenue	\$ 15,122,101	\$ 14,701,597
Assisted living	181,468	249,455
Other	<u>1,265,137</u>	<u>1,521,146</u>
Total operating revenues	<u>16,568,706</u>	<u>16,472,198</u>
Operating expenses		
Salaries and wages	9,323,386	8,646,267
Employee benefits	2,588,717	2,413,429
Supplies and other	6,946,184	7,079,635
Depreciation	<u>463,063</u>	<u>446,230</u>
Total operating expenses	<u>19,321,350</u>	<u>18,585,561</u>
Operating loss	<u>(2,752,644)</u>	<u>(2,113,363)</u>
Nonoperating revenues and expenses		
Noncapital appropriations - Trego County	700,000	700,000
COVID-19 grant revenue	4,213,654	558,949
SBA PPP loan forgiveness	1,878,200	
Noncapital grants and contributions	11,203	140,448
Interest income	14,571	24,602
Interest expense	(3,137)	(4,813)
Loss on disposal of equipment	<u></u>	<u>(9,076)</u>
Total nonoperating revenues	<u>6,814,491</u>	<u>1,410,110</u>
Excess of revenues over expenses (expenses over revenues)		
before capital grants and contributions	4,061,847	(703,253)
Capital grants and contributions	<u>254,735</u>	<u>28,611</u>
Increase (decrease) in net position	4,316,582	(674,642)
Net position, beginning of year	<u>6,200,297</u>	<u>6,874,939</u>
Net position, end of year	<u>\$ 10,516,879</u>	<u>\$ 6,200,297</u>

The accompanying notes are an integral part of these statements.

Trego County-Lemke Memorial Hospital
Statements of Cash Flows
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 16,420,189	\$ 14,850,894
Payments to or on behalf of employees	(11,831,760)	(11,083,731)
Payments for supplies and services	(7,084,802)	(6,891,568)
Other receipts and payments	<u>1,105,101</u>	<u>1,592,795</u>
Net cash used by operating activities	<u>(1,391,272)</u>	<u>(1,531,610)</u>
Cash flows from noncapital financing activities		
Interest paid	(167)	(104)
Proceeds from SBA PPP loan payable		1,878,200
Proceeds from Medicare accelerated payments		2,295,499
Repayment of Medicare accelerated payments	(2,295,499)	
Proceeds from COVID-19 grant funding	1,522,105	4,529,240
Noncapital appropriations - Trego County	700,000	700,000
Noncapital contributions	<u>11,203</u>	<u>140,448</u>
Net cash provided (used) by noncapital financing activities	<u>(62,358)</u>	<u>9,543,283</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(821,035)	(512,420)
Grants and contributions for capital	254,735	28,611
Principal payments on long-term debt and capital lease obligations	(28,561)	(27,138)
Interest paid on capital related debt	<u>(2,970)</u>	<u>(4,709)</u>
Net cash used by capital and related financing activities	<u>(597,831)</u>	<u>(515,656)</u>
Cash flows from investing activities		
Interest received	<u>14,571</u>	<u>24,602</u>
Net cash provided by investing activities	<u>14,571</u>	<u>24,602</u>
Change in cash and cash equivalents	(2,036,890)	7,520,619
Cash and cash equivalents at beginning of year	<u>10,004,009</u>	<u>2,483,390</u>
Cash and cash equivalents at end of year	<u><u>\$ 7,967,119</u></u>	<u><u>\$ 10,004,009</u></u>

The accompanying notes are an integral part of these statements.

Trego County-Lemke Memorial Hospital
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents included in current assets	\$ 3,793,230	\$ 5,839,287
Cash included in assets limited as to use	<u>4,173,889</u>	<u>4,164,722</u>
	<u>\$ 7,967,119</u>	<u>\$ 10,004,009</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (2,752,644)	\$ (2,113,363)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	463,063	446,230
Provision for bad debts	299,387	288,890
Changes in		
Patient accounts receivable	(485,024)	510,766
Other receivables	(160,036)	71,649
Inventories and prepaid expenses	(20,302)	(24,625)
Accounts payable and accrued expenses	(37,973)	188,657
Estimated third-party payor settlements	<u>1,302,257</u>	<u>(899,814)</u>
Net cash used by operating activities	<u>\$ (1,391,272)</u>	<u>\$ (1,531,610)</u>

The accompanying notes are an integral part of these statements.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements
December 31, 2021 and 2020

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

1. Reporting entity

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

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's financial statements are comprised solely of an enterprise fund and utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Cash and cash equivalents

For purposes of the statements of cash flow, the Hospital considers all cash and highly-liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents, including any such amounts included as assets limited as to use.

5. Patient accounts receivable

The Hospital reports patient accounts receivable at net realizable amounts from third-party payors, patients, and others. The Hospital provides an allowance for uncollectible accounts based on the aging of its accounts receivable, historical collection experience, and existing economic conditions.

6. Inventories

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

7. Assets limited as to use

Assets limited as to use include cash set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

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

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are substantially in conformity with useful life guidelines established by the American Hospital Association.

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

9. Accrued compensated absences

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 accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

10. Net position

Net position of the Hospital is classified in two components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt."

11. 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.

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, 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.

13. 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 identified amount of charges forgone for services and supplies furnished under the Hospital's charity care policy is disclosed in Note B.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

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

14. Noncapital appropriations - Trego County

The Hospital received approximately 4 percent of its financial support from noncapital appropriations from the County sales and property tax levies in 2021 and 2020. 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.

15. 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 of the Internal Revenue Code.

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 the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2019.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are 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. Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology based upon costs of previous years adjusted for inflation, statewide limits, and other factors. The Hospital submits annual cost reports for the long-term care facility to the State. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

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.

Approximately 71 and 73 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note B - Net Patient Service Revenue - Continued

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:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 19,959,313	\$ 19,325,033
Contractual adjustments		
Medicare	(3,201,841)	(3,009,427)
Medicaid	(94,710)	(48,154)
Blue Cross	(598,465)	(546,843)
Other	(557,901)	(510,110)
Administrative adjustments	(43,230)	(202,163)
Charity care	(41,678)	(17,849)
Provision for uncollectible accounts	<u>(299,387)</u>	<u>(288,890)</u>
Net patient service revenue	<u>\$ 15,122,101</u>	<u>\$ 14,701,597</u>

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2021 and 2020 was \$41,678 and \$17,849, respectively. The Hospital estimates that the cost of providing charity care, based on an overall cost-to-charge ratio, was \$37,802 and \$15,951 for 2021 and 2020, respectively.

Note C - 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 and deposited with designated depositories for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2021, the carrying amount of the Hospital's bank deposits was \$7,966,495, and the bank balances were \$8,045,078. Of the bank balances, \$7,649,425 was covered by federal depository insurance or pledged securities, which are held in the name of the financial institution and pledged on behalf of the Hospital, and \$395,653 was uninsured and uncollateralized.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 3,792,606
Assets limited as to use	<u>4,173,889</u>
Total bank deposits	<u>\$ 7,966,495</u>

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note D - Patient Accounts Receivable

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

	<u>2021</u>	<u>2020</u>
Medicare	\$ 1,145,790	\$ 1,283,103
Medicaid	170,313	155,729
Blue Cross	436,487	201,786
Other third-party payors	332,792	327,746
Self-pay	<u>700,240</u>	<u>747,710</u>
	<u>2,785,622</u>	<u>2,716,074</u>
Less allowances		
Contractual adjustments	(562,531)	(645,819)
Uncollectible accounts	<u>(476,198)</u>	<u>(508,999)</u>
	<u>(1,038,729)</u>	<u>(1,154,818)</u>
Net patient accounts receivable	<u>\$ 1,746,893</u>	<u>\$ 1,561,256</u>

The Hospital's allowance for uncollectible accounts on amounts due from patients was 68 percent of self-pay accounts receivable as of December 31, 2021 and 2020, respectively. The Hospital's net bad debt write-offs were \$313,867 and \$475,629 for the years ended December 31, 2021 and 2020, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended December 31, 2021 or 2020. 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.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note E - Capital Assets

Capital asset additions, retirements, and balances are as follows:

	2021			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Land improvements	108,934			108,934
Buildings	7,288,968	34,600		7,323,568
Fixed equipment	2,968,846	68,359		3,037,205
Movable equipment	4,025,956	632,991	396,798	4,262,149
Totals at historical cost	<u>14,395,204</u>	<u>735,950</u>	<u>396,798</u>	<u>14,734,356</u>
Less accumulated depreciation				
Land improvements	108,896	25		108,921
Buildings	5,622,000	160,162		5,782,162
Fixed equipment	2,678,884	31,904		2,710,788
Movable equipment	3,195,589	270,973	396,798	3,069,764
	<u>11,605,369</u>	<u>463,064</u>	<u>396,798</u>	<u>11,671,635</u>
	2,789,835	272,886	-	3,062,721
Projects in process	<u>138,531</u>	<u>138,531</u>		<u>138,531</u>
Capital assets, net	<u>\$ 2,789,835</u>	<u>\$ 411,417</u>	<u>\$ -</u>	<u>\$ 3,201,252</u>

	2020			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Land improvements	108,934			108,934
Buildings	7,081,871	207,097		7,288,968
Fixed equipment	2,941,188	27,658		2,968,846
Movable equipment	3,814,091	277,665	65,800	4,025,956
Totals at historical cost	<u>13,948,584</u>	<u>512,420</u>	<u>65,800</u>	<u>14,395,204</u>
Less accumulated depreciation				
Land improvements	108,402	494		108,896
Buildings	5,406,820	215,180		5,622,000
Fixed equipment	2,650,593	28,291		2,678,884
Movable equipment	3,050,048	202,265	56,724	3,195,589
	<u>11,215,863</u>	<u>446,230</u>	<u>56,724</u>	<u>11,605,369</u>
Capital assets, net	<u>\$ 2,732,721</u>	<u>\$ 66,190</u>	<u>\$ 9,076</u>	<u>\$ 2,789,835</u>

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note E - Capital Assets - Continued

Capital assets include the following property under capital leases at December 31:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 120,957	\$ 147,101
Less accumulated amortization	<u>90,718</u>	<u>92,670</u>
	<u>\$ 30,239</u>	<u>\$ 54,431</u>

Note F - SBA PPP Loan Payable

On April 29, 2020, the Hospital was granted a \$1,878,200 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Hospital was eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements, including maintaining employment levels during the covered period and using the funds for certain payroll, rent, and utility expenses. The loan balance was forgiven in full as of February 10, 2021, and the Hospital was legally released from the loan obligation by the SBA. The loan forgiveness is included in nonoperating revenues on the statement of revenues, expenses, and changes in net position.

Note G - Medicare Accelerated Payments

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling \$2,295,499. The Hospital paid off the Medicare accelerated payments in full in March 2021.

Note H - Unearned COVID-19 Grant Revenue

The Hospital was awarded federal grants through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act. The funds were distributed through the United States Department of Health and Human Services (HHS). The Hospital received \$1,078,742 and \$4,027,408 from HHS provider relief funds during the years ended December 31, 2021 and 2020, respectively, to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus. The Hospital also received \$200,000 and \$98,923 of HHS rural health clinic testing funds during the years ended December 31, 2021 and 2020, respectively, to be used to support coronavirus testing and related expenses in the rural health clinic; \$99,493 and \$79,206 from SPARK (Strengthening People and Revitalizing Kansas) grants from the state of Kansas during the years ended December 31, 2021 and 2020, respectively, to respond to coronavirus; and \$80,257 and \$323,703 from HHS nursing home and quality and infection program grants during the years ended December 31, 2021 and 2020, respectively. As a condition to receiving these distributions, the Hospital agreed to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions and are recognized as unearned revenues until such time the conditions have been met.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note H - Unearned COVID 19 Grant Revenue - Continued

The Hospital has determined that the conditions for lost revenues and allowable expenditures have been met for \$4,213,654 and \$558,949 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2021 and 2020, respectively. These amounts have, therefore, been recognized and are classified in the financial statements as COVID-19 grant revenue. The Hospital has deemed that the remaining HHS provider relief funds have not met the conditions for expenditure. As a result, the Hospital has recorded \$1,278,742 as unearned revenue at December 31, 2021. The terms and conditions of these programs are complex and subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note I - Long-Term Debt and Capital Leases

Long-term debt and capital lease obligations are summarized as follows:

	<u>2021</u>	<u>2020</u>
Capital lease obligations (5.97 percent)	\$ 33,695	\$ 62,256
Less current portion	<u>26,754</u>	<u>28,561</u>
Noncurrent portion	<u>\$ 6,941</u>	<u>\$ 33,695</u>

Long-term debt activity for the years ended December 31, is as follows:

<u>2021</u>						
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Capital leases	\$ 62,256	\$ -	\$ (28,561)	\$ 33,695	\$ 26,754	\$ 6,941
	<u>\$ 62,256</u>	<u>\$ -</u>	<u>\$ (28,561)</u>	<u>\$ 33,695</u>	<u>\$ 26,754</u>	<u>\$ 6,941</u>
<u>2020</u>						
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Capital leases	\$ 89,394	\$ -	\$ (27,138)	\$ 62,256	\$ 28,561	\$ 33,695
	<u>\$ 89,394</u>	<u>\$ -</u>	<u>\$ (27,138)</u>	<u>\$ 62,256</u>	<u>\$ 28,561</u>	<u>\$ 33,695</u>

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note I - Long-Term Debt and Capital Leases - Continued

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2021:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 26,754	\$ 1,288	\$ 28,042
2023	<u>6,941</u>	<u>69</u>	<u>7,010</u>
Total minimum lease payments	<u>\$ 33,695</u>	<u>\$ 1,357</u>	<u>\$ 35,052</u>

Note J - Pension 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 percent of annual compensation plus 9 percent of the excess over \$7,800. Employee contributions are computed at the rate of 2.5 percent of annual compensation plus 5 percent 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 percent 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 made by plan members totaled \$531,108 and \$495,206 in 2021 and 2020, respectively. Hospital contributions totaled \$618,201 and \$573,159 in 2021 and 2020, 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 100 percent 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.

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 percent 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 K - 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 \$700,127 and \$686,849 in 2021 and 2020, respectively. Amounts included in accounts payable related to these services totaled \$2,857 and \$58,054 at December 31, 2021 and 2020, respectively.

Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note K - Management/Services Agreement - Continued

On September 18, 2015, the Hospital entered into a software subscription agreement for an electronic health record system with GPHA. The agreement is for an initial term of ten years beginning in January of 2017 with a monthly cost of \$38,847. After the end of the initial term, the agreement will automatically renew for successive 12-month periods, unless either party gives the other party written notice not less than 180 days prior to the end of the initial term or the then current renewal term. Future payments expected under this agreement are as follows:

	<u>Amount</u>
2022	\$ 466,161
2023	466,161
2024	466,161
2025	466,161
2026	<u>466,161</u>
	<u>\$ 2,330,805</u>

Note L - 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 \$16,477 and \$10,982 in 2021 and 2020, respectively, have been included in the Hospital's statements of revenues, expenses, and changes in net position as noncapital and/or capital grants and contributions.

Note M - Commitments and Contingencies

In response to amendments to the 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 (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 (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 may administer insurance assessments to its member organizations based on a systematic allocation method. No assessments were made to member organizations during 2021 or 2020, and management does not anticipate that an assessment will be required for the plan year ended June 30, 2022.

**Trego County-Lemke Memorial Hospital
Notes to Financial Statements - Continued
December 31, 2021 and 2020**

Note N - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed for the policy period from November 1, 2021 to November 1, 2022. Management is not aware of any open asserted claims as of December 31, 2021. It is possible that other claims may be asserted arising from past services provided.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note O - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated coronavirus (COVID-19) as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses. While many restrictions have eased, the pandemic continues to impact Hospital operations. The impact on future operations is driven by numerous factors, which are beyond management's control and management's ability to forecast the total impact on operations. The Hospital is unable to estimate the length of time or financial impact the pandemic will have on operations.

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note F, Note G, and Note H pertaining to the SBA PPP loan, the Medicare accelerated payments, and the HHS grant funds.

Note P - 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.

In November of 2021, the voters of the County approved a ballot question as to whether a bond issue should be approved for a proposed expansion and remodeling project at the Hospital.

On February 17, 2022, the County issued \$12,870,000 in Series 2022 General Obligation Refunding and Improvement Bonds. The bonds were issued at interest rates ranging from 3.00 to 4.00 percent. Principal and interest payments will be on March 1 and September 1 of each year with the first payments due September 1, 2022 through September 1, 2046.

Under the terms of the bonds, the County will levy a special tax in the County and will contribute a minimum of \$458,530 each year for debt service. Total 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.

Total estimated cost of the project is approximately \$11 - \$12 million. So far, the only commitment for this project is for the architectural design fee, in the amount of \$700,000, of which \$138,531 has been completed as of December 31, 2021.

Supplementary Information

Trego County-Lemke Memorial Hospital
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program title</u>	<u>Assistance listing number</u>	<u>Pass-through entity identifying number</u>	<u>Amount passed through to subrecipients</u>	<u>Expenditures</u>
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	None	\$ -	\$ 4,169,909
COVID-19 Skilled Nursing Facility and Nursing Home Infection Control	93.498	None		181,203
Passed through Healthworks KHA Foundation, Inc.				
COVID-19 Small Hospital Improvement Program	93.301	None		63,613
COVID-19 HRSA Uninsured Program	93.461	None		3,289
Total United States Department of Health and Human Services			-	<u>4,418,014</u>
United States Department of Treasury				
Passed through Kansas Department of Health and Environment				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	None		99,493
Total United States Department of Treasury				<u>99,493</u>
Total federal awards			\$ -	<u>\$ 4,517,507</u>

Trego County-Lemke Memorial Hospital
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Trego County-Lemke Memorial Hospital (the Hospital) under programs of the federal government, for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

Note 4 - Donated Personal Protective Equipment (unaudited)

The Hospital received nonmonetary assistance of personal protective equipment (PPE) during the emergency period of the COVID-19 pandemic. The donated PPE was generally provided by donors without information about compliance or reporting requirements associated with federal assistance listing numbers. The donated PPE is not included in the Schedule. The value of the donated PPE is not reasonably estimable.

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

Board of Trustees
Trego County-Lemke Memorial Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Trego County-Lemke Memorial Hospital (Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 15, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and, therefore, material weaknesses or significant deficiencies, may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

Hospital's Response to Findings

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

Purpose of This Report

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 15, 2022

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

Board of Trustees
Trego County-Lemke Memorial Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Wendling Roe Nelson & Johnson LLC

Topeka, Kansas
September 15, 2022

Trego County-Lemke Memorial Hospital
Schedule of Findings and Questioned Costs on Federal Awards
Year ended December 31, 2021

Section I - Summary of Auditors' Results

Financial statements

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

Federal awards

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

Identification of major programs

<u>CFDA Number</u>	<u>Name of Program</u>
93.498	Provider Relief Fund

Dollar threshold used to distinguish between type A and type B programs	\$750,000
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Entity qualified as low-risk auditee	___ Yes	___ <u>X</u> No
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Section II - Financial Statement Findings

2021-001 Estimated cost report settlements

Identification: Significant deficiency in internal control over financial reporting.

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

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

Trego County-Lemke Memorial Hospital
Schedule of Findings and Questioned Costs - Continued
Year ended December 31, 2021

Cause: The Hospital has properly recorded the estimated cost report settlements in its audited financial statements. This estimate was based upon the as-filed cost report. The Hospital does not, however, record an estimate of its cost report settlements on a monthly basis. Because of the significance of Medicare cost report reimbursement to the financial statements and the fact that the Hospital does not regularly estimate the Medicare cost report settlements in its monthly financial statements, and because of the complexity of the laws and regulations governing the Medicare program, as is presently the case for virtually all CAHs, there is more than a remote risk that future financial statements could contain significant misstatements of estimated cost report settlements.

Effect: An audit adjusting journal entry was proposed to the estimated cost report settlement amounts that increased net patient service revenue by approximately \$27,000.

Repeat Finding: N/A

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

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

Section III - Federal Award Findings and Questioned Costs

None

1. Introduction
2. Literature Review
3. Methodology
4. Results
5. Discussion
6. Conclusion
7. References
8. Appendix
9. Glossary
10. Index