

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Sheridan County Health Complex
Hoxie, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Sheridan County Health Complex (Hospital), a component unit of Sheridan County, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Kansas Municipal Audit and Accounting Guide* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sheridan County Health Complex as of December 31, 2019 and 2018, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information, including the schedule of expenditures of federal awards required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information including the schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audits 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 supplementary information 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 June 18, 2020, 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 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 Sheridan County Health Complex'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 Sheridan County Health Complex's internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
June 18, 2020

Sheridan County Hospital
A Component Unit of Sheridan County, Kansas
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 4,898,810	\$ 3,828,226
Short-term certificates of deposit	1,216,459	214,311
Restricted cash - current	-	156,189
Patient accounts receivable, net of allowance; 2019 - \$243,000, 2018 - \$267,000	1,239,102	812,570
340B pharmacy receivable	31,585	119,793
Noncapital appropriations - Sheridan County - sales taxes receivable	61,386	85,520
Grants receivable	245,181	31,467
Pledges receivable	480	74,000
Supplies	346,609	256,656
Prepaid expenses and other	121,583	110,884
Total current assets	8,161,195	5,689,616
Capital Assets, Net	2,462,968	2,319,744
Total assets	\$ 10,624,163	\$ 8,009,360
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 108,438	\$ 103,778
Accounts payable	325,242	383,228
Accrued expenses	541,713	448,990
Unearned revenue	-	64,175
Estimated amounts due to third-party payers	75,000	385,000
Total current liabilities	1,050,393	1,385,171
Long-term Debt	2,838,758	629,197
Total liabilities	3,889,151	2,014,368
Net Position		
Net investment in capital assets	1,717,199	1,515,919
Temporarily restricted	169,853	230,189
Unrestricted	4,847,960	4,248,884
Total net position	6,735,012	5,994,992
Total liabilities and net position	\$ 10,624,163	\$ 8,009,360

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$202,583, 2018 - \$233,660	\$ 10,119,931	\$ 9,649,653
Other	454,868	291,472
Total operating revenues	10,574,799	9,941,125
Operating Expenses		
Salaries and wages	6,653,107	6,360,017
Employee benefits	1,343,104	1,359,227
Purchased services and professional fees	1,102,402	946,969
Supplies and other	2,967,150	2,805,138
Depreciation	600,293	802,632
Total operating expenses	12,666,056	12,273,983
Operating Loss	(2,091,257)	(2,332,858)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Sheridan County - property taxes	704,656	639,189
Noncapital appropriations - Sheridan County - sales taxes	272,802	513,122
Interest income	49,295	8,229
Interest expense	(298)	(2,605)
Loss on disposal of capital assets	(43,096)	-
Noncapital grants and gifts	1,747,918	1,139,886
Total nonoperating revenues	2,731,277	2,297,821
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	640,020	(35,037)
Capital Grants and Gifts	100,000	280,189
Increase in Net Position	740,020	245,152
Net Position, Beginning of Year	5,994,992	5,749,840
Net Position, End of Year	\$ 6,735,012	\$ 5,994,992

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 9,257,893	\$ 10,188,756
Payments to suppliers and contractors	(4,205,913)	(3,763,503)
Payments to employees	(7,903,488)	(7,769,057)
Other receipts, net	454,868	291,472
	<u>(2,396,640)</u>	<u>(1,052,332)</u>
Noncapital Financing Activities		
Noncapital appropriations - Sheridan County - property taxes	704,656	639,189
Noncapital appropriations - Sheridan County - sales taxes	296,936	492,724
Noncapital grants and gifts	1,757,263	1,115,886
	<u>2,758,855</u>	<u>2,247,799</u>
Capital and Related Financing Activities		
Capital grants and gifts	100,000	280,189
Proceeds from issuance of long-term debt	2,318,000	116,000
Principal paid on long-term debt	(103,779)	(91,582)
Interest paid on long-term debt	(298)	(2,605)
Purchase of capital assets	(808,890)	(562,238)
	<u>1,505,033</u>	<u>(260,236)</u>
Investing Activities		
Interest income received	49,295	8,229
Purchases of short-term certificates of deposit	(1,216,459)	(214,311)
Maturities of short-term certificates of deposit	214,311	212,713
	<u>(952,853)</u>	<u>6,631</u>
Increase in Cash	914,395	941,862
Cash, Beginning of Year	<u>3,984,415</u>	<u>3,042,553</u>
Cash, End of Year	<u>\$ 4,898,810</u>	<u>\$ 3,984,415</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 4,898,810	\$ 3,828,226
Restricted cash	-	156,189
Total cash	<u>\$ 4,898,810</u>	<u>\$ 3,984,415</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (2,091,257)	\$ (2,332,858)
Depreciation	600,293	802,632
Changes in operating assets and liabilities		
Patient accounts receivable, net	(426,532)	(92,487)
Estimated amounts due from or to third-party payers	(310,000)	656,250
Accounts payable and accrued expenses	57,014	6,071
Other assets and liabilities	(226,158)	(91,940)
Net cash used in operating activities	\$ (2,396,640)	\$ (1,052,332)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 48,573	\$ 70,850

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Sheridan County Health Complex (Hospital) is an acute care hospital located in Hoxie, Kansas. The Hospital is a component unit of Sheridan County, Kansas (County). The Hospital is operated by a Board of Trustees elected by the registered voters of Sheridan County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Sheridan County area. It also operates a long-term care unit and assisted living in the same geographic area.

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents.

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Notes to Financial Statements
December 31, 2019 and 2018

Noncapital Appropriations – Sheridan County – Property and Sales Tax Revenues

The Hospital received approximately 7% in 2019 and 9% in 2018 of its financial support from the proceeds of noncapital appropriations for property and sales taxes. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

Noncapital appropriations revenue for both property and sales taxes are recognized in full in the year in which use is first permitted.

Risk Management

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

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based on the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

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

Restricted Cash

Cash contributed by employees for the helping hands fund. These funds are expended at the discretion of the employees.

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Supplies

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

Capital Assets

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

Land improvements	5 – 20 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

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Net Patient Service Revenue

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

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the County, 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. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Beginning April 1, 2013, a mandatory payment reduction known as sequestration, of 2%, went into effect. Under current legislation, sequestration is scheduled to last until 2025.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

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Services rendered for long-term care facility residents are reimbursed under a cost-based prospective rate methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted July 1 and January 1 using an average of the three previously filed annual cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 62% and 61% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

Note 3: Deposits

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

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

At December 31, 2019 and 2018, respectively, \$4,940,625 and \$3,588,892 of the Hospital's bank balances of \$6,190,625 and \$4,338,892 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution	\$ 4,940,625	\$ 3,588,892

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Notes to Financial Statements
December 31, 2019 and 2018

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	<u>\$ 6,115,269</u>	<u>\$ 4,198,726</u>
Included in the following balance sheet captions		
Cash	\$ 4,898,810	\$ 3,828,226
Restricted cash	-	156,189
Short-term certificates of deposit	<u>1,216,459</u>	<u>214,311</u>
	<u>\$ 6,115,269</u>	<u>\$ 4,198,726</u>

Note 4: Patient Accounts Receivable

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 762,255	\$ 418,809
Medicaid	104,348	67,559
Blue Cross	182,710	169,899
Other third-party payers	150,587	98,046
Patients	<u>282,202</u>	<u>325,257</u>
	1,482,102	1,079,570
Less allowance for uncollectible accounts	<u>243,000</u>	<u>267,000</u>
	<u>\$ 1,239,102</u>	<u>\$ 812,570</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 18,208	\$ 50,000	\$ -	\$ -	\$ 68,208
Land improvements	223,218	39,478	-	-	262,696
Buildings	3,797,312	261,573	-	-	4,058,885
Fixed equipment	1,215,489	-	-	-	1,215,489
Major moveable equipment	4,775,103	265,147	(85,782)	-	4,954,468
Construction in progress	-	170,415	-	-	170,415
	<u>10,029,330</u>	<u>786,613</u>	<u>(85,782)</u>	<u>-</u>	<u>10,730,161</u>
Less accumulated depreciation					
Land improvements	179,369	5,704	-	-	185,073
Buildings	3,150,919	36,214	-	-	3,187,133
Fixed equipment	810,730	64,728	-	-	875,458
Major moveable equipment	3,568,568	493,647	(42,686)	-	4,019,529
	<u>7,709,586</u>	<u>600,293</u>	<u>(42,686)</u>	<u>-</u>	<u>8,267,193</u>
Capital assets, net	<u>\$ 2,319,744</u>	<u>\$ 186,320</u>	<u>\$ (43,096)</u>	<u>\$ -</u>	<u>\$ 2,462,968</u>

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 18,208	\$ -	\$ -	\$ -	\$ 18,208
Land improvements	197,823	25,395	-	-	223,218
Buildings	3,797,312	-	-	-	3,797,312
Fixed equipment	1,051,437	102,058	-	61,994	1,215,489
Major moveable equipment	4,258,851	505,635	-	10,617	4,775,103
Construction in progress	72,611	-	-	(72,611)	-
	<u>9,396,242</u>	<u>633,088</u>	<u>-</u>	<u>-</u>	<u>10,029,330</u>
Less accumulated depreciation					
Land improvements	175,439	3,930	-	-	179,369
Buildings	3,120,083	35,313	-	(4,477)	3,150,919
Fixed equipment	748,469	57,784	-	4,477	810,730
Major moveable equipment	2,862,963	705,605	-	-	3,568,568
	<u>6,906,954</u>	<u>802,632</u>	<u>-</u>	<u>-</u>	<u>7,709,586</u>
Capital assets, net	<u>\$ 2,489,288</u>	<u>\$ (169,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,319,744</u>

Sheridan County Health Complex
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Notes to Financial Statements
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Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of claims-made coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

Note 7: Long-term Debt

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

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2015-A	\$ 140,000	\$ -	\$ (20,000)	\$ 120,000	\$ 20,000
Series 2015-B	262,500	-	(37,500)	225,000	37,500
Series 2015-C	105,196	-	(15,028)	90,168	15,028
Series 2019-A	-	68,000	-	68,000	13,600
Series 2019-B	-	2,250,000	-	2,250,000	-
Notes payable	216,339	-	(22,311)	194,028	22,310
Capital lease obligations	8,940	-	(8,940)	-	-
	<u>8,940</u>	<u>-</u>	<u>(8,940)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 732,975</u>	<u>\$ 2,318,000</u>	<u>\$ (103,779)</u>	<u>\$ 2,947,196</u>	<u>\$ 108,438</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2015-A	\$ 160,000	\$ -	\$ (20,000)	\$ 140,000	\$ 20,000
Series 2015-B	300,000	-	(37,500)	262,500	37,500
Series 2015-C	120,224	-	(15,028)	105,196	15,028
Notes payable	110,453	116,000	(10,114)	216,339	22,310
Capital lease obligations	17,880	-	(8,940)	8,940	8,940
	\$ 708,557	\$ 116,000	\$ (91,582)	\$ 732,975	\$ 103,778

Revenue Bonds Payable – Series 2015-A

The Series 2015-A revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$200,000 dated February 23, 2015. These Bonds were purchased in their entirety by Prairie Land Electric Cooperative, Inc. at their par value with no interest due on these Bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds were used to finance the construction of a modular building to house the CT scanner. The Bonds are payable in annual installments of \$20,000 through March 3, 2025.

Revenue Bonds Payable – Series 2015-B

The Series 2015-B revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$375,000 dated March 3, 2015. These Bonds were purchased in their entirety by Western Cooperative Electric Association, Inc. at their par value with no interest due on these Bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds were used to purchase a new 64 slice CT scanner. The Bonds are payable in annual installments of \$37,500 through March 3, 2025.

Revenue Bonds Payable – Series 2015-C

The Series 2015-C revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$150,280 dated November 17, 2015. These Bonds were purchased in their entirety by Western Cooperative Electric Association, Inc. at their par value with no interest due on these Bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds were used to finance lab equipment. The Bonds are payable in annual installments of \$15,028 through March 3, 2025.

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

The debt service requirements for the series 2015 revenue bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 86,128	\$ 86,128	\$ -
2021	86,128	86,128	-
2022	86,128	86,128	-
2023	86,128	86,128	-
2024	86,128	86,128	-
2025	72,528	72,528	-
	<u>\$ 503,168</u>	<u>\$ 503,168</u>	<u>\$ -</u>

Revenue Bonds Payable – Series 2019-A

The Series 2019-A revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$68,000 dated May 7, 2019. These Bonds were purchased in their entirety by Western Cooperative Electric Association, Inc. at their par value with no interest due on these Bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds were used to finance a portion of the purchase of telemetry system equipment. The Bonds are payable in annual installments of \$13,600 through May 7, 2024.

Revenue Bonds Payable – Series 2019-B

The Series 2019-B revenue bonds payable consist of Health Facilities Revenue Bonds (Bonds) in the original amount of \$2,250,000 dated June 6, 2019. These Bonds were purchased by Equity Bank, First State Bank, Peoples State Bank and The Bank at \$562,500 each at their par value with 3.25% interest due on these Bonds. The proceeds will be used to remodel the acute rooms at the Hospital. The Bonds are payable on June 1, 2021, and will be replaced with long-term bonds that will be guaranteed through the United States Department of Agriculture (USDA).

Notes Payable

The Hospital entered into a loan agreement with Prairie Land Electric Cooperative, Inc. in 2017 for the purpose of purchasing equipment to perform endoscopic and colonoscopy procedures. Annual payments of \$11,714, which includes interest at 1.00%, begin in March 2018 and will continue through March 2027.

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
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The Hospital entered into a loan agreement with Western Cooperative Electric Association, Inc. in 2018 for the purpose of purchasing digital imaging mobile x-ray equipment. Annual payments of \$11,600, which includes interest at 0%, begin in May 2019 and will continue through May 2028.

The debt service requirements for the notes payable as of December 31, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 36,914	\$ 22,416	\$ 14,498
2021	36,914	22,525	14,389
2022	36,914	22,635	14,279
2023	36,914	22,745	14,169
2024	36,914	22,857	14,057
2025-2028	<u>81,542</u>	<u>80,850</u>	<u>692</u>
	<u>\$ 266,112</u>	<u>\$ 194,028</u>	<u>\$ 72,084</u>

Capital Lease Obligations

The Hospital entered into a capital lease agreement with Fire Alarm Specialist, Inc. in 2014 for the purchase of a new fire alarm. Annual payments of \$8,940 began in July 2015 and will continue through July 2019. Management determined the imputed interest would not be material to the financial statements taken as a whole. The lease was paid in full during 2019.

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	<u>2019</u>	<u>2018</u>
Payable to suppliers and contractors	\$ 325,242	\$ 383,228
Payable to employees (including payroll taxes and benefits)	<u>541,713</u>	<u>448,990</u>
	<u>\$ 866,955</u>	<u>\$ 832,218</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Sheridan County Health Complex Board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 1.89% and 0.79% for 2019 and 1.65% and 0.73% for 2018, respectively. Contributions actually made by plan members and the Hospital aggregated \$125,469 and \$52,658 during 2019 and \$105,174 and \$46,725 during 2018, respectively.

Note 10: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Future Change in Accounting Principle

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. The Hospital is evaluating the impact the statement will have on the financial statements.

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Note 12: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 9, 2020, the Hospital received approximately \$2,168,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Hospital will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Hospital. The Hospital's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Hospital and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

not paid in full, the Centers for Medicare and Medicaid Services will expect the Hospital to submit payment of any unpaid balance. Acute care and critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Hospital may request extended repayment plans for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

On April 10, 2020, the Hospital obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$1,449,000 at 1.00% interest with a maturity date of April 10, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of the hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received \$100,000 on April 27, 2020, related to this special emergency grant.

On April 17, 2020, the Hospital received approximately \$273,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain the stimulus payments.

On May 6, 2020, the Hospital received approximately \$3,760,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

Supplementary Information

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2019 and 2018

	2019		Total
	Inpatient	Outpatient	
Nursing, Dietary and Room Services			
Acute hospital	\$ 614,636	\$ 98,349	\$ 712,985
Swing-bed and night care	1,153,669	-	1,153,669
Long-term care	2,120,098	-	2,120,098
Assisted living	182,340	-	182,340
	<u>4,070,743</u>	<u>98,349</u>	<u>4,169,092</u>
Operating room	42,759	224,884	267,643
Anesthesiology	680	45,386	46,066
Radiology	217,605	980,268	1,197,873
Laboratory	432,890	1,003,804	1,436,694
Physical therapy	120,078	307,996	428,074
Occupational therapy	47,070	44,938	92,008
Speech therapy	2,916	10,941	13,857
Electrocardiology	65,086	309,697	374,783
Central supply	174,742	90,132	264,874
Pharmacy	1,968,767	1,473,062	3,441,829
Clinic	-	209,396	209,396
Emergency room	8,977	542,429	551,406
Treatment room	8,724	192,590	201,314
Dietary	-	33,878	33,878
FQHC	-	2,360,626	2,360,626
Lifeline	-	7,013	7,013
Dental Outreach	-	184,816	184,816
	<u>\$ 7,161,037</u>	<u>\$ 8,120,205</u>	15,281,242
Contractual Allowance			(4,958,728)
Provision for Uncollectible Accounts			<u>(202,583)</u>
Net Patient Service Revenue			<u>\$ 10,119,931</u>

2018		
Inpatient	Outpatient	Total
\$ 721,073	\$ 285,036	\$ 1,006,109
912,108	-	912,108
1,977,133	-	1,977,133
208,650	-	208,650
<u>3,818,964</u>	<u>285,036</u>	<u>4,104,000</u>
44,008	215,263	259,271
5,377	47,970	53,347
230,800	979,337	1,210,137
369,194	1,215,921	1,585,115
86,162	311,534	397,696
38,012	50,628	88,640
3,553	15,537	19,090
62,049	293,284	355,333
179,468	86,366	265,834
1,885,076	1,556,616	3,441,692
-	62,694	62,694
8,210	276,686	284,896
7,244	225,782	233,026
-	36,106	36,106
-	2,190,675	2,190,675
-	8,580	8,580
-	138,422	138,422
<u>\$ 6,738,117</u>	<u>\$ 7,996,437</u>	14,734,554
		(4,851,241)
		<u>(233,660)</u>
		<u>\$ 9,649,653</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Contractual Allowances and Other Operating Revenues
Years Ended December 31, 2019 and 2018

Contractual Allowances

	<u>2019</u>	<u>2018</u>
Medicare	\$ 3,788,051	\$ 3,560,552
Medicaid	(69,499)	191,071
Blue Cross	630,936	502,065
Commercial	446,045	356,398
Charity	103,912	229,271
Other	59,283	11,884
	<u>\$ 4,958,728</u>	<u>\$ 4,851,241</u>

Other Operating Revenues

	<u>2019</u>	<u>2018</u>
Cafeteria sales	\$ 78,514	\$ 66,451
Supplies sold	1,574	1,893
Medical records transcript fees	-	90
340B drug savings program revenue	326,610	198,130
Other	48,170	24,908
	<u>\$ 454,868</u>	<u>\$ 291,472</u>

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Operating Expenses
Years Ended December 31, 2019 and 2018

	2019		Total
	Salaries	Other	
Nursing service	\$ 846,578	\$ 250,754	\$ 1,097,332
Long-term care	1,204,901	217,147	1,422,048
Assisted living	96,205	7,141	103,346
Operating room	51,653	99,952	151,605
Anesthesia	-	41,440	41,440
Radiology	302,484	415,711	718,195
Laboratory	154,201	624,432	778,633
Physical therapy	104,216	59,450	163,666
Occupational therapy	-	63,803	63,803
Speech therapy	-	16,216	16,216
Electrocardiology	-	634	634
Central supply	-	27,379	27,379
Pharmacy	126,952	353,827	480,779
Clinic	40,277	52,635	92,912
Emergency room	394,070	244,636	638,706
Treatment room	86,565	4,883	91,448
FQHC	1,340,668	1,034,167	2,374,835
Depreciation - building and fixed equipment	-	66,280	66,280
Employee benefits	-	1,343,104	1,343,104
Purchasing	48,851	9,961	58,812
Business office	252,759	79,252	332,011
Administrative and general	560,140	321,946	882,086
Plant operation and maintenance	168,391	182,706	351,097
Laundry and linen	49,351	10,054	59,405
Housekeeping	89,611	27,813	117,424
Dietary	363,255	228,572	591,827
Nursing administration	166,127	3,498	169,625
Medical records	119,946	47,321	167,267
Social service	20,318	1,087	21,405
Activities	65,588	8,695	74,283
Wellness Center	-	2,628	2,628
Dental Outreach	-	165,825	165,825
	<u>\$ 6,653,107</u>	<u>\$ 6,012,949</u>	<u>\$ 12,666,056</u>

2018		
Salaries	Other	Total
\$ 814,972	\$ 298,751	\$ 1,113,723
1,279,944	178,039	1,457,983
70,856	10,808	81,664
49,120	84,347	133,467
-	84,759	84,759
281,403	409,097	690,500
164,765	583,025	747,790
102,689	61,990	164,679
-	67,878	67,878
-	19,798	19,798
-	987	987
-	37,104	37,104
128,806	444,039	572,845
6,799	6,843	13,642
315,878	126,782	442,660
73,150	3,101	76,251
1,205,841	843,984	2,049,825
-	75,358	75,358
-	1,359,227	1,359,227
44,035	7,976	52,011
220,139	82,671	302,810
556,756	522,616	1,079,372
140,634	164,184	304,818
52,840	21,472	74,312
107,858	34,742	142,600
369,367	229,278	598,645
139,181	2,582	141,763
133,438	39,979	173,417
38,187	882	39,069
63,359	11,286	74,645
-	2,628	2,628
-	97,753	97,753
\$ 6,360,017	\$ 5,913,966	\$ 12,273,983

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity ID Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services:				
Consolidated Health Centers Program	93.224		\$ -	\$ 1,168,995
Small Health Care Provider Quality Improvement	93.912		-	10,616
			<u>\$ -</u>	<u>\$ 1,179,611</u>

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of Sheridan County Health Complex under programs of the federal government for the year ended December 31, 2019. 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 Sheridan County Health Complex, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Sheridan County Health Complex.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Independent Auditor's Report

Board of Trustees
Sheridan County Health Complex
Hoxie, Kansas

We have audited, in accordance with 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, and the *Kansas Municipal Audit and Accounting Guide*, the financial statements of Sheridan County Health Complex (Hospital), a component unit of Sheridan County, Kansas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated June 18, 2020.

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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Sheridan County Health Complex
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 determination of financial statement amounts. 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*.

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 entity'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.

BKD, LLP

Wichita, Kansas
June 18, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Trustees
Sheridan County Health Complex
Hoxie, Kansas

Report on Compliance for Each Major Federal Program

We have audited Sheridan County Health Complex's (Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Sheridan County Health Complex's major federal program for the year ended December 31, 2019. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Sheridan County Health Complex's major federal program based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Board of Trustees
Sheridan County Health Complex
(Continued)

Opinion on Major Federal Program

In our opinion, Sheridan County Health Complex complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Sheridan County Health Complex is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

BKD, LLP

Wichita, Kansas
June 18, 2020

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statement

1. The type of report the auditor issued on whether the financial statement audited was prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies) Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies) Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2019

7. The Hospital's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers Program	93.224

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Hospital qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Status of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
	No matters are reportable.	