Independent Auditor's Report and Financial Statements

Memorial Hospital of Hospital District #1
of Dickinson County, Kansas
d/b/a Memorial Health System

December 31, 2021 and 2020

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Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Management's Discussion and Analysis
Years ended December 31, 2021 and 2020

Our discussion and analysis of the financial performance of Memorial Health System provides a narrative overview of the Health System's financial activities for the years ended December 31, 2021 and 2020. The financial statements include the financial activity of the Memorial Health Foundation under the blending method. These statements do not include the activity of Abilene Housing, Inc. (AHI), which is audited by another accounting firm. Activity of AHI can be located in Note S of the financial statements. Please read this analysis in conjunction with the accompanying basic financial statements.

Financial highlights

The Health System's net position increased by $14,324,373 in 2021 and decreased by $736,494 in 2020.

The Health System's total operating revenues increased in 2021 by $3,066,149 or 9.4 percent and decreased by $1,570,858 or 4.6 percent in 2020.

The operating revenues of the Health System in 2021 include a $2,503,984, or an 8.2 percent increase in net patient service revenue joined by a $562,165 or a 25.5 percent increase in other operating revenue. The increase in other operating revenue was impacted by a $587,613 increase in 340b drug discount program revenues. The Health System experienced a decrease of $161,850 in salary and benefit costs in 2021 as compared to 2020, with the actuarial adjustment included, and had an increase in supplies and other expenses of $1,555,791 in 2021 as compared to 2020.

On December 27, 2021, the Health System made a $1,682,314 payment to the State of Kansas Employee Retirement System (KPERS) to settle the Health System's total unfunded employee defined benefit pension plan and other post-employment benefit plan actuarial liabilities owed to KPERS on behalf of the Health System's workforce. Even though the Health System will no longer be a KPERS-affiliated employer, KPERS will continue to pay benefits for the Health System's retired employees and the Health System's current and former employees who are eligible to retire from KPERS in the future. The Health System recognized a $8,346,114 gain on the settlement of these employee post-employment benefit obligations. The Health System also recognized $3,493,429 in COVID-19 grants in 2021 that were received to help offset the impact of the pandemic, which began in March 2020, and had a significant impact on operations. The Health System recognized $3,506,853 for the forgiveness of the SBA PPP loan in 2021.

The net effect of these items resulted in an increase in net position in 2021 of $14,324,373 as compared to the decrease in net position in 2020 of $736,494. There were many items that were the cause of this decline which we will elaborate on further in our discussion of operating results and the changes in net position.

Using these financial statements

The Health System's financial statements consist of three statements - (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position, and (3) Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Health System, including resources held by or for the benefit of the Health System, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

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

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

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

Assets, liabilities, and net position

The Health System's statements of net position as of the end of each of the last three years are summarized as follows:

	2021	2020	2019
Assets			
Current assets	$ 21,332,637	$ 29,654,876	$ 15,131,782
Assets limited as to use	1,351,758	1,774,105	1,776,948
Capital assets, net	19,907,070	17,228,920	18,590,385
Other assets	61,648	77,413	22,513
Other investments	100,318	90,602	93,991
Total assets	42,753,431	48,825,916	35,615,619
Liabilities			
Current liabilities	6,029,310	10,774,404	3,034,745
Long-term obligations	18,993,662	17,982,724	19,053,235
Net pension and OPEB liability		14,789,147	11,010,677
Medicare accelerated payments		6,280,904	
Agency funds	61,648	77,413	22,513
Total liabilities	25,084,620	49,904,592	33,121,170
Net deferred outflows and inflows of resources for pension and OPEB plans		4,224,133	1,246,521
Deferred outflow on bond refunding	1,014,316	1,153,297	1,292,278
Deferred inflows ad valorem tax revenue	(360,000)	(300,000)	(298,000)
Total net deferred outflows net of deferred inflows of resources	654,316	5,077,430	2,240,799
Net position	$ 18,323,127	$ 3,998,754	$ 4,735,248

Cash and invested cash in the current asset category decreased by $7,486,862 during 2021 and increased by $13,225,756 in 2020. Assets whose use is limited and other investments decreased by $410,628 in 2021 and increased by $50,989 in 2020.

In aggregate, the Health System's unrestricted cash and investments total $15,382,588, $22,857,277, and $9,591,866 as of December 31, 2021, 2020, and 2019, respectively. The decrease in 2021 is primarily due to the Health System settling its employee defined benefit and OPEB obligations for $1,682,314 and paying off the Medicare accelerated payments totaling $7,244,904. This represents 147, 242, and 102 days of average cash expenses on hand, respectively, during each of the years then ended.

The Health System's net patient accounts receivable were 15.2 percent of current assets as of December 31, 2021, 13.7 percent of current assets as of December 31, 2020, and 27.2 percent of current assets as of December 31, 2019. The average number of days in accounts receivable of net patient revenue was 36 days, 49 days, and 48 days as of December 31, 2021, 2020, and 2019, respectively.

The Health System's net investment in capital assets was $19,907,070, $17,228,920, and $18,590,385 at the end of 2021, 2020, and 2019. The increase in capital assets in 2021 is due to the Health System investing approximately $3,500,000 in informational technology software and equipment. The Health System invested approximately $24,000,000 in the facilities over a three-year period from 2012 through 2014. This significant construction and replacement of key equipment has resulted in lower capital purchases in subsequent years. This project was the largest capital construction project undertaking by the Health System to date. It is the opinion of management that this addition of facilities, renovation of existing facilities, and replacement of key infrastructure items will have a positive impact on providing health care services in the near and long-term future of the Health System.

The Health System's net position increased by $14,324,373 during 2021 and decreased during 2020 by $736,494. The increase in 2021 was due primarily to the $8,346,114 gain recognized on the settlement of the KPERS pension and disability liabilities and recognition of the $3,506,853 SBA PPP loan forgiveness. The percentage of total assets financed with net position, or equity, was 42.9 percent, 8.2 percent, and 13.3 percent as of December 31, 2021, 2020, and 2019, respectively.

In March 2020, the Health System, along with most all health care providers, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Hospital's services were significantly impacted beginning in the latter part of March 2020. Outpatient volumes decreased from suspension of elective procedures and stay at home practices. The Health System's expenses were impacted by price inflation resulting from supply shortages and some wage inflation to compensate employees for working with coronavirus patients. In response, the Coronavirus Aid, Relief, and Economic Act (CARES) and subsequent legislation passed by the United States Government has provided funding during these uncertain times. The Health System was approved for a Paycheck Protection Program (PPP) loan and received accelerated payments from Medicare and several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to coronavirus. Total assets and liabilities increased as a result of these funding mechanisms.

Operating results and changes in net position

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

	2021	2020	2019
Operating revenues	$ 35,716,543	$ 32,650,394	$ 34,221,252
Operating expenses (net of actuarial adjustment to pension expense)	38,534,668	35,711,300	35,096,246
Actuarial adjustment to pension expense	(536,585)	800,858	152,569
Operating loss	(2,281,540)	(3,861,764)	(1,027,563)
Interest expense	(724,154)	(759,725)	(789,583)
Nonoperating revenues	8,307,753	3,541,430	870,956
Provision for impairment of capital assets			
Capital grants and contributions	676,200	343,565	93,506
Gain on settlement of employee postemployment benefit obligations	8,346,114		
Change in net position	$ 14,324,373	$ (736,494)	$ (852,684)

The first, and most significant, component of the overall change in the Health System's net position is the operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform these services.

Net patient service revenue is summarized as follows:

	2021	2020	2019
Inpatient services	$ 17,867,492	$ 17,698,787	$ 18,022,652
Outpatient services	40,738,858	37,613,967	39,316,044
Gross patient service revenue	58,606,350	55,312,754	57,338,696
Contractual adjustments	23,242,883	22,250,919	23,910,501
Provision for bad debts	2,037,233	2,069,314	1,587,349
Charity care	379,940	550,211	413,957
Net patient service revenue	$ 32,946,294	$ 30,442,310	$ 31,426,889

Outpatient charges represent 69.5 percent, 68.0 percent, and 68.6 percent of gross patient charges for 2021, 2020, and 2019. The Health System's inpatient services consist of acute care, swing-bed care, inpatient psychiatric services, and nursing facility care services. The Health System has experienced a trend toward more services being performed on an outpatient basis. This trend was interrupted in 2020 due to patient flow changes caused by the pandemic.

Inpatient gross charges are impacted by utilization and changes in charge rates. The Health System provided 4,706, 4,987, and 5,346 inpatient acute, swing-bed, and behavioral health inpatient days in 2021, 2020, and 2019. Village Manor, which provides nursing facility care services, had 23,363, 24,663, and 25,162 days of care in 2021, 2020, and 2019. The Hospital also increased its most prevalent acute care room rate by 4.4 percent effective at the beginning of calendar year 2020. There were no room rate increases in 2021 and 2019.

The Health System has agreements with various third-party payors that provide for payments to the Health System at amounts different from its established charge rates. These differences are referred to as contractual adjustments. Contractual adjustments continue to be a significant portion of the reduction in gross patient services revenue and represent 39.7 percent, 40.2 percent, and 41.7 percent of charges for 2021, 2020, and 2019.

The Health System provides care free of charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charity care write-offs have totaled $379,940 for 2021, $550,211 for 2020, and $413,957 for 2019. There is a growing trend to identify and report the value of charity care provided to patients. The enactment of IRS regulation referred to as 501(r) has increased the importance of tracking charity care for those patients who are in need of health care services but are unable to pay for those services. The provision for bad debts represented 3.5 percent, 3.7 percent, and 2.8 percent of gross patient service revenue during 2021, 2020, and 2019, respectively. The combined provision for bad debt and charity care write-offs was 4.1 percent, 4.7 percent, and 3.5 percent of gross patient services revenue for 2021, 2020, and 2019, respectively.

Employee salaries and wages increased by $784,634 or 4.6 percent during 2021 and $1,029,623 or 6.4 percent during 2020. The Health System implemented inflationary pay raises commensurate with market conditions for 2021 and 2020. Increases that are greater than current market conditions is due to special pay which was provided during the pandemic in 2021 and 2020.

Employee benefits and supplies and other expenses increased by $1,946,751 or 11.9 percent during 2021 and decreased during 2020 by $344,503 or 2.1 percent. The actuarial adjustments related to our pension and other post employee benefit program expenses decreased by $1,337,443 and increased by $648,289 in 2021 and 2020.

This financial report is designed to provide a general overview of the Health System's finances and to discuss significant changes in our financial statements. If you have any questions about the report, please contact the Administration Office at the Hospital.

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

The Board of Directors
Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (the Hospital), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System as of December 31, 2021 and 2020, and the respective 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.

Emphasis of Matter

As noted in Note P, the Hospital settled its unfunded employee defined benefit pension plan and other post-employment benefit plan actuarial liabilities owed to the State of Kansas Employee Retirement System (KPERS) for a gain of $8,346,114. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit of the financial statements as of and for the year ended December 31, 2020, was not conducted in accordance with *Government Auditing Standards.* The financial statements of the blended component unit, Memorial Health Foundation, were not audited in accordance with *Governmental Auditing Standards*.

Responsibilities of Management for the Financial Statements

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

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

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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 Kansas Municipal Auditing Standards 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 July 29, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 29, 2022

Financial Statements

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Net Position
December 31,

Assets and Deferred Outflows of Resources

	2021	2020
Current assets		
Cash and invested cash	$ 11,219,021	$ 18,705,883
Investments	4,063,249	4,060,792
Assets whose use is limited by indenture agreement - required for current liabilities	219,602	220,056
Patient accounts receivable, net of allowance for doubtful accounts of $2,274,440 in 2021 and $1,883,035 in 2020	3,237,860	4,075,771
Accounts receivable - other	525,879	229,572
Interest receivable	9,089	10,690
Estimated third-party payor settlements	1,184,312	1,257,052
Inventories	311,645	314,893
Prepaid expenses	201,980	480,167
Ad valorem taxes receivable	360,000	300,000
Total current assets	21,332,637	29,654,876
Assets whose use is limited		
By indenture agreement	1,571,360	1,994,161
Less amounts required for current liabilities	(219,602)	(220,056)
Noncurrent assets whose use is limited	1,351,758	1,774,105
Other investments	100,318	90,602
Capital assets - net	19,907,070	17,228,920
Other assets	61,648	77,413
Total assets	42,753,431	48,825,916
Deferred outflows of resources		
Pension		4,622,884
Other post-employment benefits		59,365
Loss on bond refunding	1,014,316	1,153,297
Total deferred outflows of resources	1,014,316	5,835,546
Total assets and deferred outflows of resources	$ 43,767,747	$ 54,661,462

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2021	2020
Current liabilities		
Current maturities of long-term debt	$ 980,000	$ 945,000
SBA PPP loan payable		3,520,000
Accounts payable	1,192,180	911,154
Due to Salina Regional Health Center	1,386,977	
Accrued salaries, wages, and related withholding taxes payable	723,422	611,652
Accrued vacation pay	839,977	678,587
Accrued health insurance claims		143,290
Accrued interest payable	59,067	62,319
Estimated third-party payor settlements	234,000	17,000
Medicare accelerated payments		964,000
Unearned COVID-19 revenue	578,671	2,411,396
Other current liabilities	35,016	510,006
Total current liabilities	6,029,310	10,774,404
Noncurrent liabilities		
Long-term debt, excluding current maturities	16,877,213	17,982,724
Due to Salina Regional Health Center, excluding current portion	2,116,449	
Medicare accelerated payments, excluding current portion		6,280,904
Agency funds	61,648	77,413
Net pension liability		14,519,352
Net other post-employment benefits liability		269,795
Total noncurrent liabilities	19,055,310	39,130,188
Total liabilities	25,084,620	49,904,592
Deferred inflows of resources		
Deferred ad valorem tax revenue	360,000	300,000
Pension		374,168
Other post-employment benefits		83,948
Total deferred inflows of resources	360,000	758,116
Net position		
Net investment in capital assets	3,064,172	(545,507)
Restricted		
For debt service	1,571,360	1,994,161
Expendable for capital acquisitions	115,458	27,902
For specific operating activities	88,235	83,111
Unrestricted	13,483,902	2,439,087
Total net position	18,323,127	3,998,754
Total liabilities, deferred inflows of resources, and net position	$43,767,747	$54,661,462

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31,

	2021	2020
Operating revenues		
Net patient service revenue	$ 32,946,294	$ 30,442,310
Other	2,770,249	2,208,084
Total operating revenues	35,716,543	32,650,394
Operating expenses		
Salaries and wages	17,985,859	17,201,225
Employee benefits	4,377,730	3,986,771
Actuarial adjustments to pension and OPEB expenses	(536,585)	800,858
Supplies and other	13,922,396	12,366,605
Depreciation and amortization	2,248,683	2,156,699
Total operating expenses	37,998,083	36,512,158
Operating loss	(2,281,540)	(3,861,764)
Nonoperating revenues (expenses)		
Investment income	37,892	145,851
Ad valorem taxes	340,717	330,044
Noncapital contributions	347,121	176,430
Interest expense	(724,154)	(759,725)
COVID-19 noncapital contributions	3,493,429	2,870,954
SBA PPP loan forgiveness	3,506,853	
Insurance recoveries	401,099	
Other	180,642	18,151
Nonoperating revenues (expenses), net	7,583,599	2,781,705
Excess of revenues over (under) expenses before capital contributions and gain on settlement of employee post-employment benefit obligations	5,302,059	(1,080,059)
Capital contributions	676,200	343,565
Gain on settlement of employee postemployment benefit obligations	8,346,114	
Change in net position	14,324,373	(736,494)
Net position at beginning of year	3,998,754	4,735,248
Net position at end of year	$ 18,323,127	$ 3,998,754

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Cash Flows
Year ended December 31,

	2021	2020
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 26,829,041	$ 36,523,533
Payments to or on behalf of employees	(23,916,033)	(20,900,381)
Payments to suppliers	(13,802,507)	(12,390,560)
Other receipts and payments	2,380,190	2,229,993
Net cash provided (used) by operating activities	(8,509,309)	5,462,585
Cash flows from noncapital financing activities		
Ad valorem taxes	340,717	330,044
Noncapital contributions	553,962	160,319
Proceeds from SBA PPP loan		3,520,000
COVID-19 grants received	2,110,872	5,298,461
Other nonoperating receipts and payments	19,204	23,848
Net cash provided by noncapital financing activities	3,024,755	9,332,672
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,368,503)	(668,013)
Proceeds from sale of assets	533,653	1,000
Contributions for capital assets	25,592	221,011
Insurance proceeds for capital assets		491,389
Repayment of long-term debt	(945,000)	(910,000)
Interest paid	(713,936)	(747,840)
Net cash used by capital and related financing activities	(2,468,194)	(1,612,453)
Cash flows from investing activities		
Decrease in investments	201,778	403,013
Investment income	64,430	135,230
Net cash provided by investing activities	266,208	538,243
Net change in cash and cash equivalents	(7,686,540)	13,721,047
Cash and cash equivalents at beginning of year	23,729,056	10,008,009
Cash and cash equivalents at end of year	$ 16,042,516	$ 23,729,056

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Cash Flows - Continued
Year ended December 31,

	2021	2020
Reconciliation of cash and cash equivalents		
Cash and cash equivalents reported as current assets	$ 11,219,021	$ 18,705,883
Cash and cash equivalents reported in assets limited as to use by indenture agreement	1,571,360	1,994,161
Cash and cash equivalents reported in investments	3,190,487	2,951,599
Cash and cash equivalents reported in other assets	61,648	77,413
	$ 16,042,516	$ 23,729,056
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (2,281,540)	$ (3,861,764)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	2,248,683	2,156,699
Provision for bad debts	2,037,233	2,069,314
Payment to settle employee post-employment benefit obligations	(1,682,314)	
Changes in		
Patient and other accounts receivable	(1,515,490)	(1,996,168)
Estimated third-party payor settlements	289,740	(1,209,983)
Inventories and prepaid expenses	281,435	(79,874)
Accounts payable and accrued expenses	(105,566)	338,599
Medicare accelerated payments	(7,244,904)	7,244,904
Net pension liability, deferred inflows, and deferred outflows related to defined benefit pension and OPEB plans	(536,586)	800,858
Net cash provided (used) by operating activities	$ (8,509,309)	$ 5,462,585
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains (losses) on investments	$ (24,937)	$ 13,611

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Notes to Financial Statements
December 31, 2021 and 2020

Note A - Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (Hospital), is a municipal corporation operating an acute-care hospital located in Abilene, Kansas, with a licensed bed capacity of 25 acute care beds and 10 psychiatric beds and a long-term care facility with a licensed bed capacity of 75 beds. The Hospital also operates a physician clinic located in Abilene, Kansas. The Hospital is governed by an elected five-member Board of Directors.

2. Component units

The Memorial Health Foundation (Foundation) was formed and organized as a Kansas not-for-profit corporation on August 6, 2013. The Foundation is organized for specific health care purposes and is intended to be an auxiliary association and supporting organization for the financial aid and assistance of the Hospital and all of its component or affiliated organizations and other causes and institutions. The Foundation is organized exclusively for charitable, educational, and scientific purposes, including, but not limited to, the sponsorship of specific projects and programs to improve health care services in the geographic area served by the Hospital.

Since the bylaws of the Foundation provide that the Hospital's board will always make up the majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation, the Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Abilene Housing, Inc. (AHI), was formed and organized as a Kansas not-for-profit corporation. AHI provides housing for elderly and handicapped persons in a 60-unit apartment project located in Abilene, Kansas, and provides services specifically designed to meet the physical, social, and psychological needs of those individuals. Membership of AHI's Board consists of three members designated by the Hospital Board, one member is a member of the Board of Directors of the Hospital, the Chief Executive Officer of the Hospital, and either the Chief Financial Officer, Chief Operating Officer, or Chief Nursing Officer of the Hospital.

The Hospital is financially accountable for AHI since the Hospital Board appoints AHI's Board. The Hospital does not have access to AHI's resources and is not legally obligated for AHI's long-term debt. Management has chosen to not blend the financial activity of AHI due to immateriality.

Condensed financial statements of AHI are presented in Note S.

3. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses and liabilities are recorded when incurred.

4. 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.

Note A - Summary of Accounting Policies - Continued

5. Cash equivalents

All cash and invested cash include highly liquid investments with an original maturity of three months or less, are to be considered cash equivalents for purposes of the cash flow statement.

6. Patient accounts receivable

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

7. Inventories

Inventories are stated at the lower of cost or net realizable value.

8. Investments in debt and equity securities

Investments in debt and equity securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating investment income.

9. Capital assets

Capital assets are stated at cost. Depreciation and amortization of capital assets is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

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

10. Accrued health insurance claims

The Hospital is partially self-insured for health insurance claims of its employees (Note Q). Management estimates a liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience. Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

11. Deferred outflows and inflows of resources

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

Note A - Summary of Accounting Policies - Continued

12. Pension and Other Post-employment Benefit (OPEB) plans

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

On December 27, 2021, the Hospital entered into a settlement agreement and made a payment to KPERS to fully discharge its KPERS defined benefit pension plan and long-term disability benefits plan obligations (Note P).

13. Net position

Net position is classified in three components. "Net investment in capital assets" 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. "Restricted net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "net investment in capital assets" or "restricted."

14. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, the provision for bad debts, and contractual adjustments, 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.

15. Operating revenues and expenses

The 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 taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. 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.

17. Ad valorem taxes

The Hospital receives financial support from ad valorem taxes. Ad valorem taxes are assessed in November of each year and are available for use by the Hospital in the following year.

Note A - Summary of Accounting Policies - Continued

18. Income taxes

The Hospital is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code. The Foundation is exempt from federal income taxes pursuant to section 501(c)(3).

19. Subsequent events

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

20. Reclassifications and restatement

The 2020 financial statements have been restated to reclassify $4,060,792 of other investments from a long-term asset to a current asset since the investments are readily available to meet the current obligations of the Hospital. This restatement had no impact on previously reported net position and change in net position.

Note B - Reimbursement Programs

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 statements 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. Inpatient and outpatient acute care services, swing-bed services, and rural health clinic (RHC) services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies with RHC services subject to a per-visit cap effective for visits occurring after March 31, 2021.

Inpatient geriatric psychology services and skilled nursing services, provided at the Hospital's long-term care facility, are paid based on prospectively determined per diem rates. Physician services, other than RHC services, rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule.

The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2018.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information from preceding calendar years. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Note B - Reimbursement Programs - Continued

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

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

A summary of gross and net patient service revenue follows:

	2021	2020
Gross patient service revenue	$ 58,606,350	$ 55,312,754
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(23,242,883)	(22,250,919)
Provision for bad debts	(2,037,233)	(2,069,314)
Charity care	(379,940)	(550,211)
Net patient service revenue	$ 32,946,294	$ 30,442,310

Revenue from the Medicare and Medicaid programs accounted for approximately 56 percent and 12 percent, respectively, of the Hospital's net patient service revenue during 2021, and 59 percent and 12 percent, respectively, of the Hospital's net patient service revenue during 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Note C - Assets Whose Use is Limited by Indenture Agreement

Assets whose use is limited by indenture agreement consist of money market mutual funds that are held by a trustee under bond indenture agreements. Amounts that are required for obligations classified as current liabilities are reported in current assets.

Note D - Investments and Other Investments

Investments and other investments are summarized as follows:

	2021	2020
Invested cash consisting of bank certificates of deposit, bank savings accounts, and money market mutual funds	$ 3,190,487	$ 2,951,599
Common stock at fair value	40,466	40,466
Corporate bonds at fair value	819,134	1,055,566
Abilene Community Foundation Endowment fund	13,162	13,162
Equity interest in Mobile Clinical Services, Inc.	100,318	90,601
	$ 4,163,567	$ 4,151,394

Note D - Investments and Other Investments - Continued

The Hospital received contributions from an outside trust consisting of common stocks and corporate bonds. The outside trustee stipulated that the Hospital board administer the resources created by the contributions separate from public monies held by the Hospital and that the assets be invested with the goal of maximizing the benefit to the Hospital by retaining the securities in their existing form through their maturities and placing the assets in similar high-grade securities in the future. Restrictions on the use of the contributions have been met and the investments are now unrestricted as to their use by the Hospital.

The Hospital has a 25-percent ownership interest in Mobile Clinical Services, Inc. (MCSI). The Hospital's equity in undistributed net earnings of MCSI since acquisition is $100,318. Nuclear medicine and ultrasound services are provided to the Hospital through arrangements with MCSI. Total fees charged to operating expense for these services were approximately $46,100 in 2021 and $50,500 in 2020. Amounts payable to MCSI for these services were insignificant at December 31, 2021 and 2020.

Note E - Capital Assets

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

	2021			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land improvements	$ 1,480,214	$ -	$ 13,322	$ 1,466,892
Buildings	30,199,318	672,090	458,819	30,412,589
Major movable equipment	10,171,986	1,110,332	1,370,148	9,912,170
Total capital assets being depreciated	41,851,518	1,782,422	1,842,289	41,791,651
Less accumulated depreciation				
Land improvements	909,817	78,700	13,322	975,195
Buildings	16,699,126	1,517,148	428,340	17,787,934
Major movable equipment	8,124,881	652,835	1,358,750	7,418,966
Total accumulated depreciation	25,733,824	2,248,683	1,800,412	26,182,095
Total capital assets being depreciated, net	16,117,694	(466,261)	41,877	15,609,556
Land	821,026		330,025	491,001
Construction in process	290,200	3,516,313		3,806,513
Total capital assets not being depreciated	1,111,226	3,516,313	330,025	4,297,514
Capital assets, net	$ 17,228,920	$ 3,050,052	$ 371,902	$ 19,907,070

Note E - Capital Assets - Continued

	2020			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land improvements	$ 1,440,754	$ 39,460	$ -	$ 1,480,214
Buildings	30,110,937	88,381		30,199,318
Major movable equipment	9,885,151	436,656	149,821	10,171,986
Total capital assets being depreciated	41,436,842	564,497	149,821	41,851,518
Less accumulated depreciation				
Land improvements	832,183	77,634		909,817
Buildings	15,210,089	1,489,037		16,699,126
Major movable equipment	7,674,129	590,028	139,276	8,124,881
Total accumulated depreciation	23,716,401	2,156,699	139,276	25,733,824
Total capital assets being depreciated, net	17,720,441	(1,592,202)	10,545	16,117,694
Land	821,026			821,026
Construction in process	48,918	241,282		290,200
Total capital assets not being depreciated	869,944	241,282	-	1,111,226
Capital assets, net	$ 18,590,385	$ (1,350,920)	$ 10,545	$ 17,228,920

Construction in progress at December 31, 2021, consists of a storm shelter and information technology assets. A summary of outstanding contract commitments for these projects as of December 31, 2021, is as follows:

Total commitment	$ 4,789,976
Costs incurred to date	(3,662,419)
Remaining commitment	$ 1,127,557

Note F - Deferred Ad Valorem Tax Revenue

Deferred ad valorem tax revenue is levied in November but not available for expenditure in the current period.

Note G - Long-Term Debt

Long-term debt consists of the following:

	2021	2020
4.40% Hospital District No. 1, Dickinson County Kansas Lease Agreement Certificates of Participation, Series 2011; issued on December 1, 2011, in the original amount of $6,000,000	$ -	$ 760,000
3.00% - 5.00% Abilene, Kansas Public Building Commission Refunding Revenue bonds, Series 2017; issued on December 14, 2017, in the original amount of $17,405,000; due serially through December 1, 2035	16,885,000	17,070,000
Total bonds outstanding	16,885,000	17,830,000
Add net unamortized premium on bonds	972,213	1,097,724
	17,857,213	18,927,724
Less current maturities	(980,000)	(945,000)
Long-term debt, excluding current maturities	$ 16,877,213	$ 17,982,724

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

Outstanding at January 1, 2020	$ 19,963,235
Principal payments	(910,000)
Amortization of premium on bonds issued	(125,511)
Outstanding at December 31, 2020	18,927,724
Principal payments	(945,000)
Amortization of premium on bonds issued	(125,511)
Outstanding at December 31, 2021	$ 17,857,213

On December 1, 2011, the Abilene, Kansas Public Building Commission issued $7,760,000 in Revenue Bonds, Series 2011 (the 2011 PBC bonds) and on January 5, 2012, issued $10,000,000 in Revenue Bonds, Series 2012 (the 2012 PBC bonds), for the benefit of the Hospital pursuant to a Trust Indenture dated December 1, 2011. On December 1, 2011, the Hospital issued its Lease Agreement Certificates of Participation, Series 2011 (the Certificates), pursuant to a Trust Indenture. The Certificates represent proportionate interests of the owners thereof in basic rent payments to be made by the Hospital. The proceeds of the 2011 PBC bonds, the 2012 PBC bonds, and the Certificates (collectively the project debt) were used, together with other available funds of the Hospital, to (1) pay for renovations and additions to the Hospital's facilities, (2) purchase certain medical equipment, (3) fund a debt service reserve fund for the project debt, (4) pay interest costs during the period of construction, and (5) pay for certain costs related to issuance of the project debt.

Note G - Long-Term Debt - Continued

On December 14, 2017, the Abilene, Kansas Public Building Commission issued $17,405,000, in Refunding Revenue Bonds, Series 2017 (the 2017 PBC bonds), for the benefit of the Hospital pursuant to a Trust Indenture. The proceeds of these bonds were used to (1) pay the costs related to the issuance of the 2017 bonds, and (2) advance refund $6,985,000 of the 2011 PBC bonds and $10,000,000 of the 2012 PBC bonds by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that will mature and pay interest in amounts and at times that will provide for payment of interest on the refunded (1) 2011 bonds through December 1, 2019, and on that date redeem and pay $6,985,000 of the refunded debt, and (2) 2012 bonds through December 1, 2022, and on that date redeem and pay the $10,000,000 of refunded debt, at 100 percent on those dates. The refunding transaction decreased the total amount of future debt service requirements by $1,316,837. As a result of this transaction, a deferred refunding loss was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position and is being amortized into expense over the term of the bonds.

The Pledge of Revenues and Intercreditor Agreement between the Hospital and the City of Abilene, Kansas, and Abilene, Kansas Public Building Commission, requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the principal and interest on the appropriate due dates. Such transfers were made and are included in assets whose use is limited. The obligations of the Hospital under the agreement are secured by a pledge of its unrestricted revenues, subject to the right of the Hospital to dispose of or encumber property as defined and permitted in the agreement. The agreement also includes certain restrictive covenants relating to the disposition of property, adequacy of insurance coverage, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the agreement requires that fees and rates for services be set at levels sufficient for the Hospital to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt.

Scheduled annual debt service requirements on long-term debt are as follows:

	Principal	Interest	Total
2022	$ 980,000	$ 674,944	$ 1,654,944
2023	1,020,000	635,744	1,655,744
2024	965,000	594,944	1,559,944
2025	1,010,000	546,694	1,556,694
2026	1,060,000	496,194	1,556,194
2027-2031	6,110,000	1,667,718	7,777,718
2032-2035	6,712,213	449,906	7,162,119
	$ 17,857,213	$ 5,066,144	$ 22,923,357

Note G - Long-Term Debt - Continued

Total interest costs incurred are as follows:

	2021	2020
Total interest incurred	$ 710,684	$ 746,255
Amortization of bond premium	(125,511)	(125,511)
Amortization of deferred loss on advance refunding	138,981	138,981
Interest expense	$ 724,154	$ 759,725

Note H - SBA PPP Loan Payable

On April 13, 2020, the Hospital was granted a loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Hospital received loan forgiveness of the entire loan amount plus accrued loan interest on June 8, 2021, and has recognized $3,506,853 of this forgiveness as nonoperating revenues.

Note I - Unearned Revenue COVID-19 Grants

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

The Hospital has determined that the conditions for lost revenues and allowable expenditures have been met for $3,923,942 and $2,682,527 of HHS provider relief funds, rural health clinic testing, nursing home 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 and capital grants and contributions along with the forgiveness of the PPP loan and several other COVID-19 grants received during the years ended December 31, 2021 and 2020. The Hospital has deemed that $578,671 of HHS provider relief funds and SPARK funds have not met the conditions for expenditure as of December 31, 2021. As a result, the Hospital has recorded these grant funds 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 J - Medicare Accelerated Payments

The Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, provided for a temporary expansion of Medicare's ability to provide accelerated advance payments due to claim disruption or unusual operating circumstances. In September 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $7,244,904. During the year ended December 31, 2021, the Hospital repaid the advances in full.

Note K - Leases

The Hospital leases property and equipment under operating lease arrangements. Total lease expense under all operating leases was approximately $43,600 for 2021 and $87,000 for 2020.

Note L - 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 $300,000 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 $900,000. All coverage is on a claims-made basis. The above policies have been renewed through January 1, 2023. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

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

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.

The Hospital is involved in litigation and other disputes arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Note M - Deposits with Financial Institutions

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

Note M - Deposits with Financial Institutions - Continued

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions was $11,486,322 and the bank balances were $11,752,033 at December 31, 2021. The bank balances are categorized as follows at December 31, 2021:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital or by its agent in the Hospital's name	$ 926,797
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	10,825,236
	$ 11,752,033

The carrying amount of the Foundation's deposits with financial institutions was $328,678 and the bank balances were $331,744. Of the bank balances, $250,000 was covered by federal depository insurance and $81,744 was uninsured and uncollateralized.

Note N - Concentration of Credit Risk

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

	2021	2020
Medicare	35 %	42 %
Medicaid	6	6
Blue Cross	14	9
Other third-party payors	19	18
Patients	26	25
	100 %	100 %

Note O - Budgetary Comparison

Kansas statutes require that a fixed annual operating budget be legally adopted for the Hospital. All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the Hospital for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations lapse at year-end. Actual expenditures for the year ended December 31, 2021, on the modified accrual basis of accounting and encumbrances were $39,125,561 as compared to the legally adopted budgeted expenditures of $43,544,518. Actual expenditures for the year ended December 31, 2020, on the modified accrual basis of accounting and encumbrances were $36,078,335 as compared to the legally adopted budgeted expenditures of $43,263,703.

Note P - Defined Benefit Pension Plan and Other Post-employment Benefit Plan

Defined benefit pension plan description

The Hospital participated in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. through the date of separation, which was December 27, 2021. Substantially all employees of the Hospital were eligible to participate in KPERS through the date of separation. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits.

Defined benefit pension contributions

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

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate of 6 percent of covered salary for all members for 2021 and 2020, respectively. The employer rates established by statute at December 31, 2021 and 2020, were 8.87 percent and 8.61 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2021 and 2020, were $1,449,296 and $1,371,491, respectively, equal to the statutory required contributions for each year.

Defined benefit pension expense

For the years ended December 31, 2021 and 2020, the Hospital recognized pension expense of $874,689 and $2,135,992, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Note P - Defined Benefit Pension Plan and Other Post-employment Benefit Plan - Continued

Defined benefit pension deferred outflows of resources and deferred inflows of resources

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

	2021	2020
Deferred outflows of resources		
Differences between expected and actual experience	$ -	$ 242,429
Changes of assumptions		874,547
Net difference between projected and actual earnings on pension plan investments		1,694,047
Changes in proportion and differences between Hospital contributions and proportionate share contributions		1,152,998
Employer contributions subsequent to the measurement date		658,863
Total deferred outflows of resources	$ -	$ 4,622,884
Deferred inflows of resources		
Differences between expected and actual experience	$ -	$ 186,665
Changes in proportion and differences between Hospital contributions and proportionate share of contributions		187,503
Total deferred inflows of resources	$ -	$ 374,168

Other post-employment benefit plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) also sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their members as provided by K.S.A. 74-04927. The Hospital was covered under the Plan through December 27, 2021. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than post-employment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

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

Note P - Defined Benefit Pension Plan and Other Post-employment Benefit Plan - Continued

Changes in total OPEB liability

	June 30, 2021	June 30, 2020
Balance at beginnning of period	$ 269,795	$ 163,113
Changes for the year		
Service cost	61,292	51,995
Interest	7,121	7,339
Changes of economic/demographic gains or losses	(28,786)	43,466
Changes in assumptions or other inputs	577	14,862
Benefit payments	(18,061)	(10,980)
Liability settlement payment	(291,938)	
	(269,795)	106,682
Balance at end of period	$ -	$ 269,795

Other post-employment benefit plan expense

For the years ended December 31, 2021 and 2020, the Hospital recognized OPEB expense of $59,706 and $53,331, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Other post-employment benefit plan deferred outflows of resources and deferred inflows of resources

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

	2021	2020
Deferred outflows of resources		
Difference between actual and expected experience	$ -	$ 39,071
Changes in assumptions		14,804
Benefit payments subsequent to the measurement date		5,490
Total deferred outflows of resources	$ -	$ 59,365
Deferred inflows of resources		
Differences between expected and actual experience	$ -	$ 80,924
Changes of assumptions		3,024
Total deferred inflows of resources	$ -	$ 83,948

Note P - Defined Benefit Pension Plan and Other Post-employment Benefit Plan - Continued

On December 27, 2021, the Hospital made a $1,682,314 payment to KPERS to fully discharge the Hospital's total unfunded employee defined benefit pension plan and other post-employment benefit plan actuarial liabilities owed to KPERS on behalf of the Hospital's workforce. This payment became due on the event of the Hospital becoming a part of Salina Regional Health as described in Note S. Even though the Hospital will no longer be a KPERS-affiliated employer, KPERS will continue to pay benefits for the Hospital's retired employees and the Hospital's current and former employees who are eligible to retire from KPERS in the future. The Hospital recognized a $8,346,114 gain on the settlement of these employee post-employment benefit obligations, which is recognized in the Statement of Revenues, Expenses, and Changes in Net Position after the excess of revenues over expenses (expenses over revenues). This gain was calculated as follows:

Deferred outflows of resources - Pension	$ (3,820,509)
Deferred inflows of resources - Pension	4,073,700
Net pension liability	9,442,755
Deferred outflows of resources - OPEB	(57,341)
Deferred inflows of resources - OPEB	97,785
Net other postemployment benefits liability	292,038
Settlement payment	(1,682,314)
Gain on settlement of employee postemployment benefit obligations	$ 8,346,114

Note Q - Employee Health Insurance Claims

The Hospital is partially self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of $65,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent twice a month for the amount of claims paid by the agent net of any amounts covered by reinsurance. The Hospital met its aggregate stop-loss under its policy resulting in no self-insurance liability being required as of December 31, 2021.

The following is a summary of the activity under this arrangement:

	2021	2020
Estimated employee health insurance claims payable at beginning of period	$ 143,290	$ 97,420
Provision for employer's share of incurred claims expenses for the period	997,201	828,336
Employee contributions	777,264	941,514
Payments made for claims, expenses, and reinsurance	(1,917,755)	(1,723,980)
Estimated employee health insurance claims payable at end of period	$ -	$ 143,290

Note R - Fair Value Measurements

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

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

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

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

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

Certificates of deposit, money market mutual funds, and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

Corporate bonds are valued at prices provided by an independent pricing service.

The following tables set forth, by level, the Hospital's assets measured at fair value on a recurring basis:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash and certificates of deposit and money market mutual funds	$ 4,266,162	$ -	$ -	$ 4,266,162
Common stocks	40,466			40,466
Corporate bonds		819,134		819,134
	$ 4,306,628	$ 819,134	$ -	$ 5,125,762

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and certificates of deposit and money market mutual funds	$ 4,450,817	$ -	$ -	$ 4,450,817
Common stocks	40,466			40,466
Corporate bonds		1,055,566		1,055,566
	$ 4,491,283	$ 1,055,566	$ -	$ 5,546,849

Note S - Related Parties

As discussed in Note A2, the Hospital is responsible for appointing members of AHI's Board of Directors. The Hospital does not make any appropriations to AHI or receive any distributions. The following is a summary of the assets, liabilities, net position, revenues and expenses, and changes in net position of AHI as of and for the years ended:

	September 30, 2021	September 30, 2020
Cash and cash equivalents	$ 531,345	$ 506,155
Investments	316,382	255,392
Total current assets	847,727	761,547
Capital assets - net	1,001,512	1,083,495
Other assets	23,835	22,404
Total assets	$ 1,873,074	$ 1,867,446
Accounts payable	$ 26,508	$ 15,859
Current portion of mortgage payable	99,898	96,718
Other current liabilities	7,610	6,399
Total current liabilities	134,016	118,976
Mortgage payable, excluding current portion	564,692	664,563
Other liabilities	23,433	21,954
Total liabilities	722,141	805,493
Net assets	1,150,933	1,061,953
Total liabilities and net assets	$ 1,873,074	$ 1,867,446
Revenues	$ 582,622	$ 560,799
Management fee paid to Hospital	89,491	79,024
Depreciation and amortization	121,265	122,528
Other expenses	282,886	255,253
Total expenses	493,642	456,805
Increase in net assets	$ 88,980	$ 103,994

Note S - Related Parties - Continued

On April 6, 2021, the Hospital entered into a management and operating agreement with Salina Regional Health Affiliations, LLC (SRHA). Under this agreement, the Hospital's Board has agreed to appoint SRHA to manage and operate the assets of the Hospital. The agreement commenced on January 1, 2022, and resulted in all employees of the Hospital becoming employees of SRHA. During the year ended December 31, 2021, the Hospital incurred $3,503,426 of information technology software and equipment cost to facilitate the affiliation. The Hospital will repay SRHA these costs along with any additional implementation costs over a three-year period. The schedule of repayment as of December 31, 2021, is as follows:

2022	$ 1,386,977
2023	1,320,000
2024	796,449
	$ 3,503,426

Note T - Condensed Combining Information

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

	Statement of Net Postion - 2021			
	Hospital	Foundation	Eliminations	Consolidated
Assets				
Cash and invested cash	$10,890,343	$ 328,678	$ -	$11,219,021
Other current assets	10,209,989		(96,373)	10,113,616
Capital assets	19,907,070			19,907,070
Other assets	1,513,724			1,513,724
Total assets	42,521,126	328,678	(96,373)	42,753,431
Deferred outflows of resources	1,014,316	-	-	1,014,316
Total assets and deferred outflows of resources	$43,535,442	$ 328,678	$ (96,373)	$43,767,747
Liabilities				
Accounts payable	$ 1,192,180	$ 2,296	$ (2,296)	$ 1,192,180
SBA PPP loan payable				
Medicare accelerated payments				
Unearned CARES Act revenue	578,671			578,671
Other current liabilities	4,258,459			4,258,459
Other noncurrent liabilities	19,055,310			19,055,310
Total liabilities	25,084,620	2,296	(2,296)	25,084,620
Deferred inflows of resources	360,000	-	-	360,000
Net position				
Net investment in capital assets	3,064,172			3,064,172
Restricted				
For debt service	1,571,360			1,571,360
Expendable for capital acquisitions		115,458		115,458
For specific operating activities		182,312	(94,077)	88,235
Unrestricted	13,455,290	28,612		13,483,902
Total net position	18,090,822	326,382	(94,077)	18,323,127
Total liabilities, deferred inflows of resources, and net position	$43,535,442	$ 328,678	$ (96,373)	$43,767,747

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2021			
	Hospital	Foundation	Eliminations	Consolidated
Operating revenue				
Net patient service revenue	$32,946,294	$ -	$ -	$32,946,294
Other revenues	2,775,237		(4,988)	2,770,249
Total operating revenues	35,721,531	-	(4,988)	35,716,543
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	21,827,004			21,827,004
Supplies and other	13,921,889		507	13,922,396
Depreciation and amortization	2,248,683			2,248,683
Total operating expenses	37,997,576	-	507	37,998,083
Operating income (loss)	(2,276,045)	-	(5,495)	(2,281,540)
Nonoperating revenues (expenses)	7,485,587	186,594	(88,582)	7,583,599
Excess of revenues over (under) expenses before capital contributions and gain on settlement of employee postemployment obligations	5,209,542	186,594	(94,077)	5,302,059
Capital grants and contributions	676,200			676,200
Gain on settlement of employee postemployment obligations	8,346,114			8,346,114
Change in net position	14,231,856	186,594	(94,077)	14,324,373
Beginning net position	3,858,966	139,788		3,998,754
Ending net position	$18,090,822	$ 326,382	$ (94,077)	$18,323,127

	Statement of Cash Flows - 2021			
	Hospital	Foundation	Eliminations	Consolidated
Net cash provided (used) by				
Operating activities	$ (8,597,891)	$ -	$ 88,582	$ (8,509,309)
Noncapital financing activities	2,926,430	186,907	(88,582)	3,024,755
Capital and related financing activities	(2,468,194)			(2,468,194)
Investing activities	266,208			266,208
Net change in cash and cash equivalents	(7,873,447)	186,907	-	(7,686,540)
Cash and cash equivalents at beginning of year	23,587,285	141,771		23,729,056
Cash and cash equivalents at end of year	$15,713,838	$ 328,678	$ -	$16,042,516

Note T - Condensed Combining Information - Continued

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

	Statement of Net Postion - 2020			
	Hospital	Foundation	Eliminations	Consolidated
Assets				
Cash and invested cash	$18,564,112	$ 141,771	$ -	$18,705,883
Other current assets	10,950,976		(1,983)	10,948,993
Capital assets	17,228,920			17,228,920
Other assets	1,942,120			1,942,120
Total assets	48,686,128	141,771	(1,983)	48,825,916
Deferred outflows of resources	5,835,546	-	-	5,835,546
Total assets and deferred outflows of resources	$54,521,674	$ 141,771	$ (1,983)	$54,661,462
Liabilities				
Accounts payable	$ 911,154	$ 1,983	$ (1,983)	$ 911,154
SBA PPP loan payable	3,520,000			3,520,000
Medicare accelerated payments	7,244,904			7,244,904
Unearned CARES Act revenue	2,411,396			2,411,396
Other current liabilities	2,967,854			2,967,854
Noncurrent liabilities	32,849,284			32,849,284
Total liabilities	49,904,592	1,983	(1,983)	49,904,592
Deferred inflows of resources	758,116	-	-	758,116
Net position				
Net investment in capital assets	(545,507)			(545,507)
Restricted				
For debt service	1,994,161			1,994,161
Expendable for capital acquisitions		27,902		27,902
For specific operating activities		83,111		83,111
Unrestricted	2,410,312	28,775		2,439,087
Total net position	3,858,966	139,788	-	3,998,754
Total liabilities, deferred inflows of resources, and net position	$54,521,674	$ 141,771	$ (1,983)	$54,661,462

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2020			
	Hospital	Foundation	Eliminations	Consolidated
Operating revenue				
Net patient service revenue	$30,442,310	$ -	$ -	$30,442,310
Other revenues	2,208,084			2,208,084
Total operating revenues	32,650,394	-	-	32,650,394
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	21,988,854			21,988,854
Supplies and other	12,381,605		(15,000)	12,366,605
Depreciation and amortization	2,156,699			2,156,699
Total operating expenses	36,527,158	-	(15,000)	36,512,158
Operating income (loss)	(3,876,764)	-	15,000	(3,861,764)
Nonoperating revenues (expenses)	2,784,729	11,976	(15,000)	2,781,705
Excess of revenues over (under) expenses before capital contributions	(1,092,035)	11,976	-	(1,080,059)
Capital grants and contributions	343,565			343,565
Change in net position	(748,470)	11,976	-	(736,494)
Net position at beginning of year	4,607,436	127,812		4,735,248
Ending net position	$ 3,858,966	$ 139,788	$ -	$ 3,998,754

	Statement of Cash Flows - 2020			
	Hospital	Foundation	Eliminations	Consolidated
Net cash provided (used) by				
Operating activities	$ 5,447,585	$ -	15,000	$ 5,462,585
Noncapital financing activities	9,339,544	8,128	(15,000)	9,332,672
Capital and related financing activities	(1,612,453)			(1,612,453)
Investing activities	538,243			538,243
Net change in cash and cash equivalents	13,712,919	8,128		13,721,047
Cash and cash equivalents at beginning of year	9,874,366	133,643		10,008,009
Cash and cash equivalents at end of year	$23,587,285	$ 141,771	$ -	$23,729,056

Note U - Risks and Uncertainties

The Health System's operations have been negatively impacted by the effects of the worldwide coronavirus pandemic which began in March of 2020. While many restrictions have eased and operations are beginning to return to normal, the pandemic continues to impact operations. The impact on future operations will be driven by many factors which are uncertain at this time. Management is closely monitoring its operations, liquidity, and capital resources and is actively making changes to minimize the future impact of this unprecedented situation as patient volumes return to pre-pandemic levels.

Note V - Subsequent Event

Subsequent to year-end, the Health System entered into a contract for building renovations and improvements. The estimated cost of this contract is $2,520,200.

Supplementary Information

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through entity identifying number	Expenditures	Passed through to subrecipients
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	N/A	$ 5,083,126	$ -
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A	137,258	
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A	120,591	
U.S. Department of Health and Human Services				
Passed through Healthworks KHA Foundation, Inc.				
COVID-19 Small Hospital Improvement Program	93.301	N/A	197,971	
Small Hospital Improvement Program	93.301	N/A	3,240	
Total U.S. Department of Health and Human Services			5,542,186	-
U.S. Department of Treasury				
Passed through the State of Kansas				
COVID-19 Coronavirus Relief Fund KS Department of Commerce	21.019	N/A	1,478	
COVID-19 State and Local Fiscal Recovery Funds KDHE	21.027	N/A	99,493	
Total U.S. Department of Treasury			100,971	-
U.S. Department of Homeland Security				
Hazard Mitigation Grant Program	97.039	N/A	119,245	
Total U.S. Department of Homeland Security			119,245	-
Total federal awards			$ 5,762,402	$ -

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Notes to the Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grants award activity of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (the Hospital) under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

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

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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*

The Board of Directors
Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System

We have audited, in accordance with the 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, the financial statements of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (the Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated July 29, 2022. The financial statements of the blended component unit, Memorial Hospital Foundation, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the blended component unit, Memorial Hospital Foundation.

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 entity'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 or significant deficiencies may exist that were not identified.

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*.

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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
July 29, 2022

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

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

The Board of Directors
Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System's (the 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, Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System 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

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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 Noe Nelson & Johnson LLC

Topeka, Kansas
July 29, 2022

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Schedule of Findings and Questioned Costs
Year ended December 31, 2021

Section I - Summary of Auditor's Results

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

Identification of major programs

CFDA Number	Name of Program
93.498	Provider Relief Fund

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

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None