Independent Auditor's Report and Financial Statements

Lincoln County Hospital

March 31, 2022 and 2021

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Lincoln County Hospital
Management's Discussion and Analysis
Years ended March 31, 2022 and 2021

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2022 and 2021. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of $693,336 in 2022, $850,215 in 2021, and $1,343,903 in 2020. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position increased by $2,204,188 in 2022 and $386,816 in 2021.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

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

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

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

Assets, deferred outflows, liabilities, and net position

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

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

	2022	2021	2020
Assets			
Current assets	$ 4,040,674	$ 6,493,779	$ 1,450,970
Capital assets, net	2,922,779	2,862,068	3,216,135
Other noncurrent assets	483,029	483,041	479,588
Total assets	7,446,482	9,838,888	5,146,693
Deferred outflows of resources on advance refunding	157,125	179,766	204,149
Liabilities			
Current liabilities	1,365,744	5,255,995	1,198,549
Noncurrent liabilities	3,973,938	4,702,922	4,479,372
Total liabilities	5,339,682	9,958,917	5,677,921
Total net position	$ 2,263,925	$ 59,737	$ (327,079)

Beginning in March 2020, the Hospital, along with all health care providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Hospital's services were impacted. Outpatient volumes decreased from stay at home practices. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation has provided funding during these uncertain times. The Hospital was approved for a Paycheck Protection Program (PPP) loan and received several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to the pandemic. In addition, the Hospital also received advanced payments from Medicare. Total assets and liabilities increased as a result of these funding mechanisms.

Our ratio of current assets to current liabilities was to 3.0 in 2022, increasing from 1.2 in 2021 and 2020. Current assets are impacted by the payment position with Medicare, change in net accounts receivable, and the change in current liabilities. The Hospital's current assets and liabilities have increased as a result of the funding mechanisms previously noted. The Hospital's liquidity position continues to be a concern and it has been impacted by the items discussed related to operations.

The Hospital's capital acquisitions were $598,446, $166,616, and $123,700 during 2022, 2021, and 2020. The remaining change in capital assets, net, results from the normal annual depreciation provisions of $487,497, $520,683, and $570,848 during 2022, 2021, and 2020.

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

The board-designated funds decreased by $13,058 and $4,609 in 2022 and 2021, respectively. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

Operating results and changes in net position

In 2022, the Hospital's net position increased by $2,204,188. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	2022	2021	2020
Operating revenues			
Net patient service revenue	$ 6,801,074	$ 6,639,453	$ 6,555,780
Other operating revenue	475,715	516,108	712,178
Total operating revenues	7,276,789	7,155,561	7,267,958
Operating expenses			
Salaries and benefits	3,807,921	4,178,074	4,851,846
Supplies and other	3,674,707	3,307,019	3,189,167
Depreciation and amortization	487,497	520,683	570,848
Total operating expenses	7,970,125	8,005,776	8,611,861
Operating loss	(693,336)	(850,215)	(1,343,903)
Nonoperating revenues net of expenses and contributions for capital	2,897,524	1,237,031	472,002
Change in net position	$ 2,204,188	$ 386,816	$ (871,901)

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2022, the Hospital's operating loss decreased by $156,879 in comparison to 2021, while in 2021 the operating loss decreased by $493,688 in comparison to 2020. The Hospital's net patient service revenue in 2022 increased by 2.4 percent and in 2021 increased by 1.3 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and to a greater extent, the change in Medicare reimbursable costs. The change in net revenues was accompanied with a 0.4 percent decrease in operating expenses during 2022, and a 7.0 percent decrease in 2021.

The Hospital received 77 and 81 percent of its net patient revenue from the Medicare program in 2022 and 2021, with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program.

Employee salaries, wages, and benefits decreased by $370,153 or 8.9 percent in 2022, and decreased by $673,772 or 13.9 percent in 2021, as compared with the previous year. The change in salaries is driven by two factors. The change in full-time equivalent employees (FTEs) and changes in employee hourly wages. The Hospital employed an average of 50 FTEs during 2022, a decrease of 6 FTEs from 2021. FTEs for 2021 decreased by 10 from 2020. FTEs were lower in 2022 due to staffing changes made in the clinic and several hospital departments. Salaries, wages, and employee benefits represent 56.0 percent, 62.9 percent, and 74.0 percent of total net patient service revenue in 2022, 2021, and 2020. Employee benefits as a percentage of salary and wage expense were 26.5 percent in 2022, 28.4 percent in 2021, and 28.9 percent in 2020.

Supplies and other expenses increased by $367,688 in 2022, increased by $117,852 in 2021, and decreased by $139,145 in 2020. The primary reason for the increase in costs since 2020 is the use of contract labor due to staff turnover and labor shortages due to the pandemic.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, gain (loss) on equity investment, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high-quality health care services to our patients. The tax appropriations received increased by $5,000 in 2022. The Hospital also recognized $1,765,656 and $662,794 of COVID-19 grant funds in 2021 and 2020, respectively. In addition, the Hospital recognized SBA PPP loan forgiveness of $678,787 in 2022.

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

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Independent Auditor's Report

Board of Trustees
Lincoln County Hospital

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Lincoln County Hospital (the Hospital), and of its discretely presented component unit, as of and for the years ended March 31, 2022 and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2022 and 2021, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 *Government 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 opinions. The audit of the financial statements as of and for the year ended March 31, 2021, was not conducted in accordance with *Government Auditing Standards.* The financial statements of the Lincoln County Hospital and Healthcare Foundation, which is a discretely presented component unit, were not audited in accordance with *Government 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.

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 and *Government Auditing Standards* will always detect a material misstatement when it exists.

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

In performing an audit in accordance with generally accepted auditing standards 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of patient service revenue, operating expenses by functional division, and 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*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of patient service revenue, operating expenses by functional division, and the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 August 17, 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
August 17, 2022

Financial Statements

Lincoln County Hospital
Statements of Net Position
March 31,

Assets and Deferred Outflows of Resources

	2022		2021	
	Hospital	Component unit	Hospital	Component unit
Current assets				
Cash	$ 2,674,711	$ 108,837	$ 5,518,611	$ 102,266
Certificates of deposit		2,950		5,975
Assets limited as to use	178,736		108,671	
Accounts receivable, net of allowance for uncollectible accounts of $80,495 in 2022 and $96,688 in 2021	670,933		695,202	
Other receivables	19,676		20,793	
Inventories	200,706		144,160	
Prepaid expenses and other	5,912		6,342	
Estimated third-party payor settlements	290,000			
Total current assets	4,040,674	111,787	6,493,779	108,241
Assets limited as to use				
By Board of Trustees				
For operations	13,379		14,255	
For debt service reserve	362,960		362,193	
For capital assets	50,658		50,561	
For health claims			13,046	
By Public Building Commission	178,736		95,625	
	605,733	-	535,680	-
Less amounts required to meet current obligations	178,736		108,671	
	426,997	-	427,009	-
Capital assets, net	2,922,779	104,775	2,862,068	88,885
Other assets	56,032	-	56,032	-
Total assets	7,446,482	216,562	9,838,888	197,126
Deferred outflows of resources				
Deferred outflows on advance refunding	157,125	-	179,766	-
Total assets and deferred outflows of resources	$ 7,603,607	$ 216,562	$ 10,018,654	$ 197,126

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2022		2021	
	Hospital	Component unit	Hospital	Component unit
Current liabilities				
Current maturities of long-term obligations	$ 313,225	$ -	$ 361,452	$ -
SBA PPP loan payable to bank			678,787	
Accounts payable and other accrued liabilities	158,653		161,104	
Salaries payable	185,097		223,208	
Payroll taxes payable	89,210		77,700	
Vacation benefits payable	122,092		91,246	
Other accrued benefits	39,500		73,581	
Interest payable	9,788		10,413	
Unearned COVID-19 revenue	402,764		2,980,504	
Medicare accelerated payments			443,000	
Estimated third-party payor settlements	45,415		155,000	
Total current liabilities	1,365,744	-	5,255,995	-
Long-term liabilities				
Long-term obligations, less current maturities	3,973,938		4,117,920	
Medicare accelerated payments, excluding current portion			585,002	
Total long-term liabilities	3,973,938	-	4,702,922	-
Total liabilities	5,339,682	-	9,958,917	-
Net position				
Invested in capital assets net of related debt	(1,207,259)		(1,437,538)	
Restricted				
For debt service	178,736		95,625	
For specific operating activities		65,892		66,175
Unrestricted	3,292,448	150,670	1,401,650	130,951
Total net position	2,263,925	216,562	59,737	197,126
Total liabilities and net position	$ 7,603,607	$ 216,562	$ 10,018,654	$ 197,126

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

	2022		2021	
	Hospital	Component unit	Hospital	Component unit
Operating revenues				
Net patient service revenue	$ 6,801,074	$ -	$ 6,639,453	$ -
Other	475,715	27,863	516,108	6,658
Total operating revenues	7,276,789	27,863	7,155,561	6,658
Operating expenses				
Salaries and wages	3,011,324		3,254,891	
Employee benefits	796,597		923,183	
Supplies and other	3,674,707	5,811	3,307,019	39,145
Depreciation	487,497	2,799	520,683	1,592
Total operating expenses	7,970,125	8,610	8,005,776	40,737
Operating income (loss)	(693,336)	19,253	(850,215)	(34,079)
Nonoperating revenues (expenses)				
Tax appropriations	510,000		505,000	
Investment income	48,023	183	36,172	327
Interest expense	(134,311)		(143,282)	
SBA PPP loan forgiveness	678,787			
Noncapital grants and contributions	25,374		138,522	
Noncapital grants from COVID-19	1,358,096		588,769	
Total nonoperating revenues	2,485,969	183	1,125,181	327
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	1,792,633	19,436	274,966	(33,752)
Capital grants and contributions	3,995		37,825	
Capital grants from COVID-19	407,560		74,025	
Change in net position	2,204,188	19,436	386,816	(33,752)
Net position beginning of year	59,737	197,126	(327,079)	230,878
Net position end of year	$ 2,263,925	$ 216,562	$ 59,737	$ 197,126

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows
Year ended March 31,

	2022		2021	
	Hospital	Component unit	Hospital	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	$ 6,425,758	$ -	$ 6,831,198	$ -
Payments to or on behalf of employees	(3,837,757)		(4,204,355)	
Payments for supplies and services	(3,733,274)	(5,811)	(3,284,355)	(39,145)
Other receipts and payments	(551,170)	27,863	1,597,711	6,658
Net cash provided (used) by operating activities	(1,696,443)	22,052	940,199	(32,487)
Cash flows from noncapital financing activities				
Tax appropriations	510,000		505,000	
Noncapital grants and contributions	143,162		138,522	
Proceeds from SBA PPP loan payable			678,787	
COVID-19 grant advances received	402,764		3,569,273	
COVID-19 grant advances refunded	(1,346,512)			
Net cash provided (used) by noncapital activities	(290,586)	-	4,891,582	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(421,765)	(18,689)	(166,616)	
Proceeds from sale of equipment	50,238			
Capital grants and contributions	27,015		111,850	
Principal paid on long-term debt obligations	(347,739)		(412,411)	
Interest paid on long-term debt obligations	(133,446)		(142,489)	
Net cash used by capital and related financing activities	(825,697)	(18,689)	(609,666)	-
Cash flows from investing activities				
Change in certificates of deposit		3,025		(92)
Investment income received	38,879	183	36,172	327
Net cash provided by investing activities	38,879	3,208	36,172	235
Change in cash and cash equivalents	(2,773,847)	6,571	5,258,287	(32,252)
Cash and cash equivalents at beginning of year	6,054,291	102,266	796,004	134,518
Cash and cash equivalents at end of year	$ 3,280,444	$ 108,837	$ 6,054,291	$ 102,266
Reconciliation of cash and cash equivalents				
Cash	$ 2,674,711	$ 108,837	$ 5,518,611	$ 102,266
Assets limited as to use	605,733		535,680	
	$ 3,280,444	$ 108,837	$ 6,054,291	$ 102,266

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows - Continued
Year ended March 31,

	2022		2021	
	Hospital	Component unit	Hospital	Component unit
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ (693,336)	$ 19,253	$ (850,215)	$ (34,079)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	487,497	2,799	520,683	1,592
Provision for bad debts	226,342		148,309	
Changes in				
Accounts receivable	(202,073)		(10,477)	
Estimated third-party payor settlements	(399,585)		53,913	
Other receivables	1,117		53,601	
Inventories	(56,546)		17,050	
Prepaid expenses and other	430		3,542	
Medicare accelerated payments	(1,028,002)		1,028,002	
Accounts payable and accrued expenses	(32,287)		(24,209)	
Net cash provided (used) by operating activities	$ (1,696,443)	$ 22,052	$ 940,199	$ (32,487)
Noncash investing, capital, and financing activities				
Acquisition of capital assets through capital lease obligations	$ 176,681	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Notes to Financial Statements
March 31, 2022 and 2021

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

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (the Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The Foundation is administered by a self-perpetuating Board of Directors. One of the seven members of the Foundation's Board is also a member of the Hospital's Board of Trustees.

3. 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.

4. Basis of accounting

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

5. Cash and cash equivalents

The Hospital considers all cash and highly-liquid debt instruments with maturities of three months or less, excluding any such amounts reported as certificates of deposit, to be considered cash equivalents for purposes of the cash flow statement.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the balance of private pay receivables.

7. Inventories

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

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

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control and may at its discretion subsequently use for other purposes; donor-restricted funds to be used for capital asset acquisitions; and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity 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 useful lives of the item or the properties.

10. Other assets

The Hospital has a 3.4 percent equity interest in Community Holdings LLC, which provides stop-loss insurance coverage to the Hospital's partially self-funded health insurance plan (see Note N). The activity for this entity is reported on the equity method. No gain or loss has been recognized from this investment in 2022 or 2021.

11. Deferred outflows 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 a future period.

12. Vacation benefits payable

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

13. Accrued health insurance claims

The Hospital was partially self-insured for health insurance claims of its employees through December 31, 2020. Management estimated the net 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 from the estimate.

14. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the

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

Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

15. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. Net patient service revenue

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

17. Cost of borrowing

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

18. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

19. Restricted resources

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

20. Charity care

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

21. Income taxes

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

Note B - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2020.

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

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

A summary of gross and net patient service revenue follows:

	2022	2021
Gross patient service revenue		
Inpatient	$ 2,940,297	$ 3,325,379
Outpatient	3,997,022	3,325,042
Physician services	251,963	236,064
Rural health clinic	460,441	407,884
	7,649,723	7,294,369
Third-party contractual adjustments	(583,475)	(471,888)
Charity care	(21,407)	(14,931)
Other discounts and allowances	(17,425)	(19,788)
Provision for bad debts	(226,342)	(148,309)
Net patient service revenue	$ 6,801,074	$ 6,639,453

Revenue from the Medicare program accounted for approximately 77 and 81 percent of the Hospital's net patient service revenue during 2022 and 2021, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Note B - Net Patient Service Revenue - Continued

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy for 2022 and 2021 were $21,407 and $14,931, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was $21,395 and $15,891 for 2022 and 2021, respectively.

Note C - Allowance for Uncollectible Accounts

The Hospital's allowance for uncollectible accounts on amounts due from patients was 65 and 71 percent of self-pay accounts receivable as of March 31, 2022 and 2021, respectively. The Hospital's net bad debt write-offs were $216,945 and $128,610 for the years ended March 31, 2022 and 2021, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2022 or 2021. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

Note D - Deposits with Financial Institutions

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of 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, or the Federal Home Loan Bank.

At March 31, 2022, the carrying amount of the Hospital's bank deposits were $3,101,574 and the bank balances were $3,247,113. Of the bank balances, $270,705 was covered by federal depository insurance and $2,976,408 was collateralized with securities held by a third-party bank.

Note E - Assets Limited as to Use

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

	2022	2021
Board of Trustee funds	$ 426,997	$ 440,055
Under bond agreements	178,736	95,625
Total assets limited as to use	$ 605,733	$ 535,680

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

Note F - Capital Assets

	Balance March 31, 2021	Transfers and additions	Retirements	Balance March 31, 2022
Land	$ 19,725	$ -	$ -	$ 19,725
Land improvements	193,089			193,089
Buildings	2,171,741			2,171,741
Fixed equipment	5,494,797	9,740		5,504,537
Movable equipment	3,176,594	565,686	643,284	3,098,996
	11,055,946	575,426	643,284	10,988,088
Less accumulated depreciation and amortization				
Land improvements	144,188	10,750		154,938
Buildings	1,625,567	61,230		1,686,797
Fixed equipment	3,659,691	237,326		3,897,017
Movable equipment	2,764,432	178,191	593,046	2,349,577
	8,193,878	487,497	593,046	8,088,329
Projects in progress	-	23,020	-	23,020
Capital assets, net	$ 2,862,068	$ 110,949	$ 50,238	$ 2,922,779

	Balance March 31, 2020	Transfers and additions	Retirements	Balance March 31, 2021
Land	$ 19,725	$ -	$ -	$ 19,725
Land improvements	193,089			193,089
Buildings	2,171,741			2,171,741
Fixed equipment	5,483,671	11,126		5,494,797
Movable equipment	3,021,104	155,490	-	3,176,594
	10,889,330	166,616	-	11,055,946
Less accumulated depreciation and amortization				
Land improvements	131,345	12,843		144,188
Buildings	1,561,079	64,488		1,625,567
Fixed equipment	3,401,588	258,103		3,659,691
Movable equipment	2,579,183	185,249	-	2,764,432
	7,673,195	520,683	-	8,193,878
Capital assets, net	$ 3,216,135	$ (354,067)	$ -	$ 2,862,068

The Foundation's capital assets consist of land and a house located adjacent to the Hospital.

Note G - Long-Term Obligations

Long-term obligations are summarized as follows:

	2022	2021
Capital lease obligation with the Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 2.0% to 3.0%; issued on October 6, 2016; in the original amount of $5,330,000; due serially through March 1, 2035	$ 3,915,000	$ 4,165,000
Capital lease obligation; imputed interest rate of 2.1%; payable in monthly installments of $5,881. Lease obligation settled in full in June 2021 prior to scheduled maturity		69,763
Capital lease obligation; imputed interest rate of 7.2%; payable in monthly installments of $2,114 through August 2024; collateralized by leased equipment with an amortized cost of $51,457 at March 31, 2022	56,144	76,683
Capital lease obligation; imputed interest rate of 6.0%; payable in monthly installments of $2,572 through November 2028; collateralized by leased equipment with an amortized cost of $168,267 at March 31, 2022	169,243	
	4,140,387	4,311,446
Add net unamortized premium of bonds	146,776	167,926
Less current maturities of long-term debt	(313,225)	(361,452)
Long-term debt, net of current maturities	$ 3,973,938	$ 4,117,920

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

	Capital lease obligations	Capital lease with PBC	Total long-term obligations
Outstanding at March 31, 2020	$ 233,857	$ 4,490,000	$ 4,723,857
Principal payments	(87,411)	(325,000)	(412,411)
Outstanding at March 31, 2021	146,446	4,165,000	4,311,446
Capital lease obligation incurred	176,680		176,680
Principal payments	(97,739)	(250,000)	(347,739)
Outstanding at March 31, 2022	$ 225,387	$ 3,915,000	$ 4,140,387

Note G - Long-Term Obligations - Continued

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

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

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

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

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

	Principal	Interest	Total
2023	$ 250,000	$ 117,450	$ 367,450
2024	255,000	109,950	364,950
2025	265,000	102,300	367,300
2026	270,000	94,350	364,350
2027	280,000	86,250	366,250
2028-2032	1,550,000	298,800	1,848,800
2033-2037	1,045,000	63,450	1,108,450
	$ 3,915,000	$ 872,550	$ 4,787,550

Note G - Long-Term Obligations - Continued

The following is a schedule of future minimum lease payments under capital leases, excluding the lease with the Public Building Commission, as of March 31, 2022:

	Principal	Interest	Total
2023	$ 43,350	$ 12,887	$ 56,237
2024	46,299	9,938	56,237
2025	34,381	7,055	41,436
2026	25,475	5,388	30,863
2027	27,047	3,817	30,864
2028-2032	48,835	2,604	51,439
	$ 225,387	$ 41,689	$ 267,076

Total interest costs are summarized as follows:

	2022	2021
Interest incurred	$ 132,820	$ 141,676
Amortization of bond premium	(21,151)	(22,777)
Amortization of deferred outflows on advanced refunding	22,642	24,383
Interest expense	$ 134,311	$ 143,282

Note H - SBA PPP Loan Payable

On April 7, 2020, the Hospital was granted a $678,787 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the federal government. On April 9, 2021, the Hospital received loan forgiveness of the entire loan amount plus accrued interest. The loan forgiveness has been recognized as nonoperating income in the statement of revenues, expenses, and changes in net position.

Note I - COVID-19 Grant Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds are 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, until such eligibility requirements are met. The rural health clinic testing grants are to be used to support coronavirus testing and related expenses in the rural health clinic. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. The Hospital has determined that the conditions have been met for recognizing revenue of $1,633,992 and $588,769 in 2022 and 2021, respectively. These amounts are included in nonoperating revenues and expenses as capital and noncapital grants from COVID-19. The terms and conditions of the programs are complex and subject to interpretation.

Note I - COVID-19 Grant Revenue - Continued

As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term. The following table provides information about significant changes in unearned revenue for the year ended March 31:

	2022	2021
Unearned revenue at beginning of year	$ 2,980,504	$ -
HHS provider relief funds received	202,764	3,450,852
HHS rural health clinic testing funds received	200,000	98,923
Interest earned on funds received		19,498
HHS provider relief funds refunded to HHS	(1,346,512)	
Funds recognized as income during the year	(1,633,992)	(588,769)
Unearned revenue at end of year	$ 402,764	$ 2,980,504

In addition to the provider relief funds and RHC testing funds noted above, the Hospital also received several other reimbursable COVID-19 grants. Below is a table summarizing COVID-19 grants reported in the statement of revenues, expenses, and changes in net position:

	2022	2021
Provider relief funds	$ 1,525,925	$ 588,769
RHC testing funds	98,923	
KDHE frontline healthcare workers	55,716	
Other	85,092	74,025
	$ 1,765,656	$ 662,794

Note J - Medicare Accelerated Payments

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $1,028,002. Medicare will recoup the payments by offsetting future claim and settlement payments due to the Hospital for services rendered to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment (recoupment) terms of the accelerated payments. Recoupment began in April 2021. For the first 11 months, the recoupment rate was 25 percent of Medicare payments and then increased to 50 percent in March 2022. The full amount of the accelerated payments was recouped by March 31, 2022.

Note K - Pension Plan

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2022 and 2021, was $2,117,566 and $2,558,522, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first $7,800 of covered compensation plus 5 percent of the covered compensation exceeding $7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first $7,800 of

Note K - Pension Plan - Continued

covered compensation, plus 9 percent of the covered compensation exceeding $7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2022 and 2021, was $169,283 and $203,979, respectively.

Note L - Concentration of Credit Risk

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

	2022		2021	
Medicare	52.0	%	50.3	%
Medicaid	5.6		2.9	
Blue Cross	9.7		15.8	
Commercial insurance	19.7		16.0	
Self-pay	13.0		15.0	
	100.0	%	100.0	%

Note M - Risk Management

For the years ended March 31, 2022 and 2021, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2022, for the policy period from April 1, 2022 to April 1, 2023.

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

Note N - Employee Health Insurance Claims

The Hospital partially self-insured health insurance claims of its employees through December 31, 2020. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covered annual claims in excess of $32,500 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital retained a third-party

Note N - Employee Health Insurance Claims - Continued

administrator to process and settle claims. The Hospital reimbursed the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The following is a summary of activity under this arrangement:

	2022	2021
Estimated employee health insurance claims payable at the beginning of the year	$ 46,741	$ 24,961
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	(19,391)	324,412
Employee contributions		25,073
Payments made for claims and reinsurance, net of reinsurance recoveries	(27,350)	(327,705)
Estimated employee health insurance claims payable at the end of the year	$ -	$ 46,741

The Hospital had a 3.4 percent interest in Community Holdings LLC, which provides individual stop-loss coverage for incurred claims expense in excess of $32,500 for each covered individual. The Hospital's equity in the undistributed net earnings since acquisition was $56,032. The Hospital paid Community Holdings LLC approximately $204,000 in 2021 for premiums under its partially self-insured health insurance plan. Effective January 1, 2021, the Hospital terminated participation in the partially self-insured health insurance plan and now sponsors a fully insured health plan through a commercial insurance provider. The Hospital's ownership interest in Community Holdings LLC will terminate once final accounting is completed for the latest plan year. At that time, any undistributed earnings will be returned to the Hospital.

Note O - Related Party Transactions

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received $510,000 and $505,000 in tax appropriations from Lincoln County in 2022 and 2021, respectively. The Hospital also received $3,995 and $38,108 in contributions from the Foundation during 2022 and 2021, respectively.

Note P - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated coronavirus (COVID-19) as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses, and suspended elective procedures at health care facilities. While many restrictions have eased and the Hospital is back to normal operations, the pandemic continues to impact the Hospital through changes in patient patterns and increased cost inflation. The impact on future operations is driven by numerous factors, which are beyond management's control and management's ability to forecast the total impact on operations. The Hospital is unable to estimate the length of time or financial impact the pandemic will have on operations. The CARES Act and subsequent legislation enacted by the federal government has provided much needed funding during these uncertain times.

Note Q - 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.

Supplementary Information

Lincoln County Hospital
Patient Service Revenue
Year ended March 31,

	2022			2021
	Inpatient	Outpatient	Total	Total
Routine services				
Adults and pediatrics	$ 1,995,200	$ -	$ 1,995,200	$ 2,335,090
Ancillary services				
Operating room	10,249		10,249	4,029
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	59,857	444,525	504,382	365,803
CT scan and MRI	77,425	624,000	701,425	525,480
Laboratory and blood	189,884	1,127,770	1,317,654	1,137,717
Physical therapy	119,404	436,251	555,655	485,696
Occupational therapy	134,427	137,259	271,686	293,329
Speech therapy	2,391	7,979	10,370	15,855
Electrocardiology	4,330	63,965	68,295	66,641
Medical supplies	104,493	6,633	111,126	179,912
Pharmacy	214,956	318,825	533,781	500,044
Emergency room	18,059	639,025	657,084	584,153
Treatment room	107	107,779	107,886	86,031
Observation care	9,515	83,011	92,526	70,641
Clinic and physician		712,404	712,404	643,948
	945,097	4,709,426	5,654,523	4,959,279
	$ 2,940,297	$ 4,709,426	7,649,723	7,294,369
Less				
Contractual adjustments			(583,475)	(471,888)
Charity care			(21,407)	(14,931)
Administrative discounts			(17,425)	(19,788)
Provision for bad debts			(226,342)	(148,309)
Net patient service revenue			$ 6,801,074	$ 6,639,453

Lincoln County Hospital
Operating Expenses by Functional Division
Year ended March 31,

	2022			2021		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	$ 704,016	$ 658,543	$ 1,362,559	$ 708,331	$ 462,479	$ 1,170,810
Ancillary services						
Operating room		723	723			
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	202,211	154,880	357,091	97,776	359,279	457,055
CT scan and MRI	9,392	68,859	78,251	9,990	21,735	31,725
Laboratory and blood	101,357	493,862	595,219	90,355	381,025	471,380
Physical therapy		224,926	224,926		161,899	161,899
Occupational therapy		111,458	111,458		115,597	115,597
Speech therapy		14,624	14,624		13,605	13,605
Electrocardiology	1,053	2,091	3,144	912		912
Medical supplies	33,277	45,496	78,773	28,189	47,654	75,843
Pharmacy		319,382	319,382		284,588	284,588
340B drug program		452,736	452,736		430,231	430,231
Emergency room	422,317	360,976	783,293	495,752	159,119	654,871
Clinic and physician	406,693	235,227	641,920	844,301	201,530	1,045,831
Other	7,043		7,043	3,985		3,985
	1,183,343	2,485,240	3,668,583	1,571,260	2,176,262	3,747,522
General services						
Administration and general	145,288	318,978	464,266	99,396	429,807	529,203
Accounting	316,093	403,665	719,758	240,883	354,241	595,124
Plant operations and maintenance	60,522	242,556	303,078	57,828	223,379	281,207
Laundry	31,163	23,239	54,402	29,407	35,752	65,159
Housekeeping	65,490	41,090	106,580	56,604	32,533	89,137
Dietary	164,203	126,502	290,705	163,657	115,786	279,443
Nursing administration	76,198	23,320	99,518	88,936	22,611	111,547
Medical records	106,263	71,551	177,814	100,483	59,035	159,518
Education and activities	57,603	24,306	81,909	52,206	21,243	73,449
Patient care coordination	101,142	33,776	134,918	85,900	25,996	111,896
Employee benefits - other		18,538	18,538		271,078	271,078
Depreciation		487,497	487,497		520,683	520,683
	1,123,965	1,815,018	2,938,983	975,300	2,112,144	3,087,444
	$ 3,011,324	$ 4,958,801	$ 7,970,125	$ 3,254,891	$ 4,750,885	$ 8,005,776

Lincoln County Hospital
Schedule of Expenditures of Federal Awards
Year ended March 31, 2022

Federal grantor/pass-through grantor/program title	Federal assistance listing number	Pass-through entity identifying number	Amount passed-through to subrecipients	Total Federal Expenditures
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	None	$ -	$ 2,114,694
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	None	-	98,923
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	None		13,761
COVID-19 Small Hospital Improvement Program	93.301	None		23,020
Total Small Hospital Improvement Program			-	36,781
Total United States Department of Health and Human Services			-	2,250,398
United States Department of Treasury				
Passed through Kansas Department of Health and Environment - COVID-19 SPARK Hospital Employee Retention Program	21.027	None		55,717
Total United States Department of Treasury			-	55,717
Total federal awards			$ -	$ 2,306,115

Lincoln County Hospital
Notes to the Schedule of Expenditures of Federal Awards
Year ended March 31, 2022

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Lincoln County Hospital (Hospital) under programs of the federal government, for the year ended March 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, 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 the Uniform Guidance.

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Certified Public Accountants and Business Advisors

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Tyler R. Crow, CPA · Stephanie D. Kennedy, CPA
Joshua A. Wisenbaker, CPA

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

Board of Trustees
Lincoln County Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities of Lincoln County Hospital (Hospital) and its discretely presented component unit, as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated August 17, 2022. The financial statements of the Lincoln County Hospital and Health Care Foundation, Inc., (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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

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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Hospital's Response to Findings

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

Purpose of This Report

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
August 17, 2022

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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

Board of Trustees
Lincoln County Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lincoln County Hospital's (Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended March 31, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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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
August 17, 2022

Lincoln County Hospital
Schedule of Findings and Questioned Costs
Year ended March 31, 2022

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?	X Yes	___ 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

2022-001

Identification: Material weakness in internal control over financial reporting.

Criteria: SAS 115 requires communication in writing to management and those charged with governance material weaknesses in internal control over financial reporting identified in an audit.

Condition: The Hospital is a critical access hospital (CAH) for purposes of the Medicare program. As such, services rendered to Medicare beneficiaries by the Hospital are paid under cost reimbursement methodologies. The Hospital is paid at tentative rates during the year with final settlement determined after submission of annual cost reports by the Hospital. Cost reimbursement from the Medicare program accounted for approximately 77 percent and 81 percent of the Hospital's patient service revenue during 2022 and 2021, respectively. The laws and regulations that govern the Medicare program are extremely complex, subject to varying interpretations, and constantly changing.

Cause: Under generally accepted accounting principles, settlements expected for unsettled cost reports reflect management's estimate of such amounts after allowing for possible adjustments by the Medicare administrative contractor. The Hospital does not have estimation procedures in place to estimate the settlement. Therefore, because of this and the significance of Medicare cost report reimbursement to the financial statements and because of the complexity of the laws and regulations governing the Medicare program, as is presently the case for virtually all CAHs, there is more than a remote risk that future internally issued monthly financial statements could contain material misstatements of estimated cost report settlements.

Effect: There is a reasonable possibility that future material misstatements of internally issued monthly financial statements will not be prevented, detected, and corrected on a timely basis.

Recommendations: We recommend the Hospital consider if its policy for not estimating a monthly cost report estimate is still appropriate for internal reporting purposes.

Views of Responsible Officials: The Hospital understands the significance of Medicare reimbursement to the financial statements but due to the cost benefit of computing estimates on a monthly basis, has chosen not to record in the financial statements until the cost report has been prepared at the end of the year.

Section III - Federal Award Findings and Questioned Costs

No reportable items