

**Independent Auditor's Report and Financial Statements**  
**Lincoln County Hospital**  
**March 31, 2020 and 2019**

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**Lincoln County Hospital  
Management's Discussion and Analysis  
Years ended March 31, 2020 and 2019**

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, 2020 and 2019. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of \$1,343,903 in 2020, \$1,157,604 in 2019, and \$778,558 in 2018. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position decreased by \$871,901 in 2020 and decreased by \$568,852 in 2019.

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?"

**Lincoln County Hospital**  
**Management's Discussion and Analysis - Continued**  
**Years ended March 31, 2020 and 2019**

Assets, deferred outflows, liabilities, and net position

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Assets</b>			
Current assets	\$ 1,450,970	\$ 2,190,051	\$ 2,458,225
Capital assets, net	3,216,135	3,663,283	4,221,445
Other noncurrent assets	<u>479,588</u>	<u>516,968</u>	<u>542,183</u>
<b>Total assets</b>	<u>5,146,693</u>	<u>6,370,302</u>	<u>7,221,853</u>
<b>Deferred outflows of resources on advance refunding</b>	<u>204,149</u>	<u>230,233</u>	<u>257,986</u>
<b>Liabilities</b>			
Current liabilities	1,198,549	1,236,957	1,146,194
Noncurrent liabilities	<u>4,479,372</u>	<u>4,818,756</u>	<u>5,219,971</u>
<b>Total liabilities</b>	<u>5,677,921</u>	<u>6,055,713</u>	<u>6,366,165</u>
<b>Total net position</b>	<u>\$ (327,079)</u>	<u>\$ 544,822</u>	<u>\$ 1,113,674</u>

Our ratio of current assets to current liabilities decreased to 1.2 in 2020, from a ratio of 1.8 in 2019, and from 2.1 in 2018. 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 liabilities decreased by \$38,408 in 2020 as compared to 2019. The Hospital's liquidity position is becoming a concern and it has been impacted by the items discussed related to operations.

The Hospital's capital acquisitions were \$123,700, \$68,777, and \$595,000 during 2020, 2019, and 2018. The significant additions in 2020 were primarily related to the leased purchased lab equipment. The significant additions in 2018 were primarily related to the leased purchased CT scanner, clinic EHR software upgrades, and a boiler replacement. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$570,848, \$626,938, and \$699,042 during 2020, 2019, and 2018.

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 \$76,112 and \$307 in 2020 and 2019, respectively. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

**Lincoln County Hospital**  
**Management's Discussion and Analysis - Continued**  
**Years ended March 31, 2020 and 2019**

Operating results and changes in net position

In 2020, the Hospital's net position decreased by \$871,901. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Operating revenues</b>			
Net patient service revenue	\$ 6,555,780	\$ 6,638,483	\$ 6,657,489
Other operating revenue	<u>712,178</u>	<u>724,383</u>	<u>835,584</u>
<b>Total operating revenues</b>	<u>7,267,958</u>	<u>7,362,866</u>	<u>7,493,073</u>
<b>Operating expenses</b>			
Salaries and benefits	4,851,846	4,565,220	4,402,074
Supplies and other	3,189,167	3,328,312	3,170,515
Depreciation and amortization	<u>570,848</u>	<u>626,938</u>	<u>699,042</u>
<b>Total operating expenses</b>	<u>8,611,861</u>	<u>8,520,470</u>	<u>8,271,631</u>
<b>Operating loss</b>	(1,343,903)	(1,157,604)	(778,558)
<b>Nonoperating revenues net of expenses and contributions for capital</b>	<u>472,002</u>	<u>588,752</u>	<u>599,848</u>
<b>Change in net position</b>	<u>\$ (871,901)</u>	<u>\$ (568,852)</u>	<u>\$ (178,710)</u>

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 2020, the Hospital's operating loss increased by \$186,299 in comparison to 2019, while in 2019 the operating loss increased by \$379,046 in comparison to 2018. The Hospital's net patient service revenue in 2020 decreased by 1.2 percent and in 2019 decreased by 0.3 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 1.1 percent increase in operating expenses during 2020, and a 3.0 percent increase in 2019.

The Hospital received 81 percent in 2020 and 2019 of its net patient revenue from the Medicare program 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. The Hospital's net revenues from Medicare were reduced by approximately \$95,000 and \$97,000 in 2020 and 2019, respectively, due to the sequestration payment cuts implemented by Medicare which became effective on April 1, 2013.

**Lincoln County Hospital**  
**Management's Discussion and Analysis - Continued**  
**Years ended March 31, 2020 and 2019**

Employee salaries, wages, and benefits increased by \$286,626 or 6.3 percent in 2020, and increased by \$163,146 or 3.7 percent in 2019, as compared with the previous year. Salaries, wages, and employee benefits represent 74.1 percent, 68.8 percent, and 66.1 percent of total net patient service revenue in 2020, 2019, and 2018. Employee benefits as a percentage of salary and wage expense were 28.9 percent in 2020, 29.1 percent in 2019, and 29.7 percent in 2018.

Supplies and other expenses decreased by \$139,145 in 2020, increased by \$157,797 in 2019, and decreased by \$146,789 in 2018. Items affecting the 2020 to 2019 comparison include a decrease in contract labor and recruitment costs. Items affecting the 2019 to 2018 comparison include an increase in contract labor and recruitment costs.

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 declined by \$37,511 and noncapital grants and contributions declined by \$43,916 in 2020 as compared to 2019.

Management would note that the Hospital has not met the required debt service coverage ratio as required by its agreement with the Lincoln County Public Building Commission for the 2020 and 2019 fiscal year-ends. Management and Hospital leadership is actively looking at operational changes that will result in a reduction in expenses and or an increase in revenues which will allow it to continue to service its debt obligations timely. The Hospital implemented a restructuring plan in March 2020, and proceeded with closing its Sylvan Grove Clinic operations. The Hospital has engaged the services of a consultant to evaluate certain portions of the Hospital's operations for the purpose of making recommendations to improve operations and reduce operating losses. Management is also continuing to study other opportunities that will result in a reduction in operating losses. See footnote M for additional disclosures related to operations.

In March 2020, the Hospital along with all providers in the United States was negatively impacted by the worldwide coronavirus pandemic. This caused a disruption in patient volumes and other changes required to control the pandemic. In response to this disruption, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES) which provided funds immediately to Hospitals to replace any loss of revenues. The Medicare program approved an advance of up to six months of Medicare revenues to the Hospital in early April 2020, and the Hospital also was approved for a paycheck protection loan all of which helped with liquidity. While these funds were much needed, it is uncertain at this time as to how much of this funding the Hospital will get to keep. Hospital leadership is actively working to determine how much of the funding will be retained.

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.

## **Independent Auditor's Report**

Board of Trustees  
Lincoln County Hospital

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2020 and 2019, 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.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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.

### Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lincoln County Hospital's basic financial statements as a whole. The supplementary information presented on pages 25 and 26 is 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated, in all material respects in relation to the financial statements as a whole.

*Wendling Mac Nelson & Johnson LLC*  
Topeka, Kansas  
October 28, 2020

## **Financial Statements**

**Lincoln County Hospital**  
**Statements of Net Position**  
**March 31,**

**Assets and Deferred Outflows of Resources**

	2020		2019	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
<b>Current assets</b>				
Cash	\$ 254,255	\$ 134,518	\$ 1,016,136	\$ 220,905
Certificates of deposit		5,883		5,802
Assets limited as to use	118,193		146,967	
Accounts receivable, net of allowance for uncollectible accounts of \$99,462 in 2020 and \$140,753 in 2019	833,034		786,042	
Other receivables	74,394		47,688	
Inventories	161,210		154,762	
Prepaid expenses and other	9,884		38,456	
<b>Total current assets</b>	<u>1,450,970</u>	<u>140,401</u>	<u>2,190,051</u>	<u>226,707</u>
<b>Assets limited as to use</b>				
By Board of Trustees				
For operations	12,206		10,137	
For debt service reserve	360,969		361,972	
For capital assets	50,380		53,091	
For health claims	21,109		95,576	
By Public Building Commission	97,085		91,723	
	541,749	-	612,499	-
Less amounts required to meet current obligations	118,193		146,967	
	423,556	-	465,532	-
<b>Capital assets, net</b>	<u>3,216,135</u>	<u>90,477</u>	<u>3,663,283</u>	<u>-</u>
<b>Other assets</b>	<u>56,032</u>	<u>-</u>	<u>51,436</u>	<u>-</u>
<b>Total assets</b>	<u>5,146,693</u>	<u>230,878</u>	<u>6,370,302</u>	<u>226,707</u>
<b>Deferred outflows of resources</b>				
Deferred outflows on advance refunding	204,149	-	230,233	-
<b>Total assets and deferred outflows of resources</b>	<u>\$ 5,350,842</u>	<u>\$ 230,878</u>	<u>\$ 6,600,535</u>	<u>\$ 226,707</u>

The accompanying notes are an integral part of these statements.

# **Liabilities and Net Position**

	2020		2019	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
<b>Current liabilities</b>				
Current maturities of long-term obligations	\$ 435,189	\$ -	\$ 401,215	\$ -
Accounts payable and other accrued liabilities	159,032		253,538	
Salaries payable	213,162		203,207	
Payroll taxes payable	98,928		89,550	
Vacation benefits payable	114,872		130,827	
Other accrued benefits	65,054		94,243	
Interest payable	11,225		12,000	
Estimated third-party payor settlements	101,087		52,377	
<b>Total current liabilities</b>	<u>1,198,549</u>	<u>-</u>	<u>1,236,957</u>	<u>-</u>
<b>Long-term obligations, less current maturities</b>	<u>4,479,372</u>		<u>4,818,756</u>	
<b>Total liabilities</b>	<u>5,677,921</u>	<u>-</u>	<u>6,055,713</u>	<u>-</u>
<b>Net position</b>				
Invested in capital assets net of related debt	(1,494,277)		(1,556,688)	
Restricted				
For debt service	97,085		91,723	
For specific operating activities		104,000	10,000	104,000
Unrestricted	1,070,113	126,878	1,999,787	122,707
<b>Total net position</b>	<u>(327,079)</u>	<u>230,878</u>	<u>544,822</u>	<u>226,707</u>
<b>Total liabilities and net position</b>	<u>\$ 5,350,842</u>	<u>\$ 230,878</u>	<u>\$ 6,600,535</u>	<u>\$ 226,707</u>

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

	2020		2019	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 6,555,780	\$ -	\$ 6,638,483	\$ -
Other	<u>712,178</u>	<u>8,082</u>	<u>724,383</u>	<u>82,183</u>
<b>Total operating revenues</b>	<u>7,267,958</u>	<u>8,082</u>	<u>7,362,866</u>	<u>82,183</u>
<b>Operating expenses</b>				
Salaries and wages	3,763,564		3,535,478	
Employee benefits	1,088,282		1,029,742	
Supplies and other	3,189,167	3,267	3,328,312	27,783
Depreciation	<u>570,848</u>	<u>1,592</u>	<u>626,938</u>	
<b>Total operating expenses</b>	<u>8,611,861</u>	<u>4,859</u>	<u>8,520,470</u>	<u>27,783</u>
<b>Operating income (loss)</b>	<u>(1,343,903)</u>	<u>3,223</u>	<u>(1,157,604)</u>	<u>54,400</u>
<b>Nonoperating revenues (expenses)</b>				
Tax appropriations	533,713		571,224	
Investment income	27,738	948	37,967	991
Interest expense	(153,318)		(156,288)	
Gain on investment in equity investee	4,596		6,660	
Noncapital grants and contributions	<u>59,273</u>		<u>103,189</u>	
<b>Total nonoperating revenues</b>	<u>472,002</u>	<u>948</u>	<u>562,752</u>	<u>991</u>
<b>Excess of revenues over expenses (expenses over revenues) before capital grants and contributions</b>	<u>(871,901)</u>	<u>4,171</u>	<u>(594,852)</u>	<u>55,391</u>
<b>Capital grants and contributions</b>			<u>26,000</u>	
<b>Change in net position</b>	<u>(871,901)</u>	<u>4,171</u>	<u>(568,852)</u>	<u>55,391</u>
<b>Net position beginning of year</b>	<u>544,822</u>	<u>226,707</u>	<u>1,113,674</u>	<u>171,316</u>
<b>Net position end of year</b>	<u>\$ (327,079)</u>	<u>\$ 230,878</u>	<u>\$ 544,822</u>	<u>\$ 226,707</u>

The accompanying notes are an integral part of these statements.

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

	2020		2019	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
<b>Cash flows from operating activities</b>				
Receipts from and on behalf of patients	\$ 6,557,498	\$ -	\$ 6,831,348	\$ -
Payments to or on behalf of employees	(4,877,657)		(4,543,460)	
Payments for supplies and services	(3,261,549)	(3,267)	(3,291,946)	(27,783)
Other receipts and payments	685,472	8,082	714,254	82,183
<b>Net cash provided (used) by operating activities</b>	<u>(896,236)</u>	<u>4,815</u>	<u>(289,804)</u>	<u>54,400</u>
<b>Cash flows from noncapital financing activities</b>				
Tax appropriations	533,713		571,224	
Noncapital grants and contributions	59,273		103,189	
<b>Net cash provided by noncapital activities</b>	<u>592,986</u>	<u>-</u>	<u>674,413</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(17,358)	(92,069)	(116,074)	
Capital grants and contributions			26,000	
Principal paid on long-term debt obligations	(387,387)		(370,438)	
Interest paid on long-term debt obligations	(152,374)		(155,234)	
<b>Net cash used by capital and related financing activities</b>	<u>(557,119)</u>	<u>(92,069)</u>	<u>(615,746)</u>	<u>-</u>
<b>Cash flows from investing activities</b>				
Change in certificates of deposit		(81)		(29)
Investment income received	27,738	948	38,233	991
<b>Net cash provided by investing activities</b>	<u>27,738</u>	<u>867</u>	<u>38,233</u>	<u>962</u>
<b>Change in cash and cash equivalents</b>	<u>(832,631)</u>	<u>(86,387)</u>	<u>(192,904)</u>	<u>55,362</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>1,628,635</u>	<u>220,905</u>	<u>1,821,539</u>	<u>165,543</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 796,004</u>	<u>\$ 134,518</u>	<u>\$ 1,628,635</u>	<u>\$ 220,905</u>
<b>Reconciliation of cash and cash equivalents</b>				
Cash	\$ 254,255	\$ 134,518	\$ 1,016,136	\$ 220,905
Assets limited as to use	541,749		612,499	
	<u>\$ 796,004</u>	<u>\$ 134,518</u>	<u>\$ 1,628,635</u>	<u>\$ 220,905</u>

The accompanying notes are an integral part of these statements.

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

	2020		2019	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (1,343,903)	\$ 3,223	\$ (1,157,604)	\$ 54,400
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	570,848	1,592	626,938	
Provision for bad debts	138,639		239,030	
<b>Changes in</b>				
Accounts receivable	(185,631)		(90,140)	
Estimated third-party payor settlements	48,710		43,975	
Other receivables	(26,706)		(10,129)	
Inventories	(6,448)		(22,125)	
Prepaid expenses and other	28,572		(9,491)	
Accounts payable and accrued expenses	(120,317)		89,742	
<b>Net cash provided (used) by operating activities</b>	<u>\$ (896,236)</u>	<u>\$ 4,815</u>	<u>\$ (289,804)</u>	<u>\$ 54,400</u>
<b>Noncash investing, capital, and financing activities</b>				
Acquisition of capital assets through capital lease obligations	<u>\$ 106,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**Lincoln County Hospital**  
**Notes to Financial Statements**  
**March 31, 2020 and 2019**

**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 six 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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**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 K). The activity for this entity is reported on the equity method and the Hospital recognized a gain of \$4,596 and \$6,660 in 2020 and 2019, respectively.

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 is partially self-insured for health insurance claims of its employees. Management estimates 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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

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

**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 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**

Interest costs including amortization of bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

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

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, 2018.

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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note B - Net Patient Service Revenue - Continued**

A summary of gross and net patient service revenue follows:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue		
Inpatient	\$ 2,659,346	\$ 2,454,259
Outpatient	4,049,770	4,025,068
Physician services	253,208	268,489
Rural health clinic	<u>590,700</u>	<u>610,922</u>
	7,553,024	7,358,738
Third-party contractual adjustments	(764,541)	(419,744)
Charity care	(16,823)	(13,037)
Other discounts and allowances	(77,241)	(48,444)
Provision for bad debts	<u>(138,639)</u>	<u>(239,030)</u>
Net patient service revenue	<u>\$ 6,555,780</u>	<u>\$ 6,638,483</u>

Revenue from the Medicare program accounted for approximately 81 percent of the Hospital's net patient service revenue during both 2020 and 2019. 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.

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 2020 and 2019 were \$16,823 and \$13,037, 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 \$18,310 and \$14,275 for 2020 and 2019, respectively.

**Note C - Allowance for Uncollectible Accounts**

The Hospital's allowance for uncollectible accounts on amounts due from patients was 73 and 84 percent of self-pay accounts receivable as of March 31, 2020 and 2019, respectively. The Hospital's net bad debt write-offs were \$164,380 and \$271,892 for the years ended March 31, 2020 and 2019, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2020 or 2019. 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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**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, 2020, the carrying amount of the Hospital's bank deposits were \$698,841 and the bank balances were \$964,639. Of the bank balances, \$271,109 was covered by federal depository insurance and \$693,530 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:

	<u>2020</u>	<u>2019</u>
Board of Trustee funds	\$ 444,664	\$ 520,776
Under bond agreements	<u>97,085</u>	<u>91,723</u>
Total assets limited as to use	<u>\$ 541,749</u>	<u>\$ 612,499</u>

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.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note F - Capital Assets**

	Balance March 31, <u>2019</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2020</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289	5,800		193,089
Buildings	2,171,741			2,171,741
Fixed equipment	5,483,671			5,483,671
Movable equipment	<u>2,903,204</u>	<u>117,900</u>		<u>3,021,104</u>
	<u>10,765,630</u>	<u>123,700</u>	<u>-</u>	<u>10,889,330</u>
Less accumulated depreciation and amortization				
Land improvements	118,790	12,555		131,345
Buildings	1,490,446	70,633		1,561,079
Fixed equipment	3,106,741	294,847		3,401,588
Movable equipment	<u>2,386,370</u>	<u>192,813</u>		<u>2,579,183</u>
	<u>7,102,347</u>	<u>570,848</u>	<u>-</u>	<u>7,673,195</u>
Capital assets, net	<u>\$ 3,663,283</u>	<u>\$ (447,148)</u>	<u>\$ -</u>	<u>\$ 3,216,135</u>
	Balance March 31, <u>2018</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2019</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,171,741			2,171,741
Fixed equipment	5,483,671			5,483,671
Movable equipment	<u>3,503,307</u>	<u>68,776</u>	<u>668,879</u>	<u>2,903,204</u>
	<u>11,365,733</u>	<u>68,776</u>	<u>668,879</u>	<u>10,765,630</u>
Less accumulated depreciation and amortization				
Land improvements	106,332	12,458		118,790
Buildings	1,417,646	72,800		1,490,446
Fixed equipment	2,811,121	295,620		3,106,741
Movable equipment	<u>2,809,189</u>	<u>246,060</u>	<u>668,879</u>	<u>2,386,370</u>
	<u>7,144,288</u>	<u>626,938</u>	<u>668,879</u>	<u>7,102,347</u>
Capital assets, net	<u>\$ 4,221,445</u>	<u>\$ (558,162)</u>	<u>\$ -</u>	<u>\$ 3,663,283</u>

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

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note G - Long-Term Obligations**

Long-term obligations are summarized as follows:

	<u>2020</u>	<u>2019</u>
Capital lease obligation with the Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 2.00% to 3.00%; issued on October 6, 2016; in the original amount of \$5,330,000; due serially through March 1, 2035	\$ 4,490,000	\$ 4,800,000
Capital lease obligation; imputed interest rate of 2.135%; payable in monthly installments of \$5,881 through March 2022; collateralized by leased equipment with an amortized cost of \$133,965 at March 31, 2020	138,053	204,902
Capital lease obligation; imputed interest rate of 7.174%; payable in monthly installments of \$2,114 through August 2024; collateralized by leased equipment with an amortized cost of \$94,042 at March 31, 2020	<u>95,804</u>	<u>          </u>
	4,723,857	5,004,902
Add net unamortized premium of bonds	190,704	215,069
Less current maturities of long-term debt	<u>(435,189)</u>	<u>(401,215)</u>
Long-term debt, net of current maturities	<u><u>\$ 4,479,372</u></u>	<u><u>\$ 4,818,756</u></u>

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

	<u>Capital lease obligations</u>	<u>Capital lease with PBC</u>	<u>Total long-term obligations</u>
Outstanding at March 31, 2018	\$ 270,340	\$ 5,105,000	\$ 5,375,340
Principal payments	<u>(65,438)</u>	<u>(305,000)</u>	<u>(370,438)</u>
Outstanding at March 31, 2019	204,902	4,800,000	5,004,902
Capital lease obligation incurred	106,342		106,342
Principal payments	<u>(77,387)</u>	<u>(310,000)</u>	<u>(387,387)</u>
Outstanding at March 31, 2020	<u><u>\$ 233,857</u></u>	<u><u>\$ 4,490,000</u></u>	<u><u>\$ 4,723,857</u></u>

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 when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2008 bond holders.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note G - Long-Term Obligations - Continued**

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 will be 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. The pledge of revenues agreement also contains a debt service coverage requirement that was not met by the Hospital in 2020.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 325,000	\$ 134,700	\$ 459,700
2022	250,000	124,950	374,950
2023	250,000	117,450	367,450
2024	255,000	109,950	364,950
2025	265,000	102,300	367,300
2026-2030	1,455,000	387,600	1,842,600
2031-2035	<u>1,690,000</u>	<u>155,250</u>	<u>1,845,250</u>
	<u>\$ 4,490,000</u>	<u>\$ 1,132,200</u>	<u>\$ 5,622,200</u>

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, 2020:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 87,411	\$ 8,534	\$ 95,945
2022	90,301	5,644	95,945
2023	22,062	3,312	25,374
2024	23,697	1,675	25,372
2025	<u>10,386</u>	<u>187</u>	<u>10,573</u>
	<u>\$ 233,857</u>	<u>\$ 19,352</u>	<u>\$ 253,209</u>

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note G - Long-Term Obligations - Continued**

Total interest costs are summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest incurred	\$ 151,600	\$ 154,460
Amortization of bond premium	(24,366)	(25,925)
Amortization of deferred outflows on advance refunding	<u>26,084</u>	<u>27,753</u>
Interest expense	<u>\$ 153,318</u>	<u>\$ 156,288</u>

**Note H - 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, 2020 and 2019, was \$2,636,570 and \$2,784,463, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2020 and 2019, was \$213,228 and \$219,667, respectively.

**Note I - 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:

	<u>2020</u>	<u>2019</u>
Medicare	65.9 %	49.3 %
Medicaid	3.8	6.7
Blue Cross	10.1	12.0
Commercial insurance	6.4	10.4
Self-pay	<u>13.8</u>	<u>21.6</u>
	<u>100.0 %</u>	<u>100.0 %</u>

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note J - Risk Management**

For the years ended March 31, 2020 and 2019, 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 \$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 were renewed on April 1, 2020, for the policy period from April 1, 2020 to April 1, 2021.

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 K - Employee Health Insurance Claims**

The Hospital partially self-insures 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 \$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 has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The Hospital's estimated liability for reported and unreported claims incurred as of March 31, 2020 and 2019, was \$24,961 and \$55,244, respectively.

The following is a summary of activity under this arrangement:

	<u>2020</u>	<u>2019</u>
Estimated employee health insurance claims payable at the beginning of the year	\$ 55,244	\$ 23,676
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	557,716	512,396
Employee contributions	39,001	47,332
Payments made for claims and reinsurance, net of reinsurance recoveries	<u>(627,000)</u>	<u>(528,160)</u>
Estimated employee health insurance claims payable at the end of the year	<u>\$ 24,961</u>	<u>\$ 55,244</u>

The Hospital has 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 is \$56,032. The Hospital paid Community Holdings LLC approximately \$320,000 and \$305,000 in 2020 and 2019, respectively, for premiums under its partially self-insured health insurance plan.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note L - Related Party Transactions**

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$533,713 and \$571,224 in tax appropriations from Lincoln County in 2020 and 2019, respectively. The Hospital also received \$26,000 in contributions from the Foundation during 2019.

**Note M - Uncertainties**

The Hospital continues to experience significant operating losses. The operating loss reported during 2020 was \$1,343,903 and the decrease in net position was \$871,901. Due to recurring operating losses, the Hospital's total liabilities now exceed its total assets, resulting in a deficit net position. While current assets exceed current liabilities by a ratio of 1.21, the significant operating losses are resulting in a decrease in liquidity.

In view of the matter described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Hospital which, in turn, is dependent upon the Hospital's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts.

As noted in Note G, the Hospital did not meet the debt service coverage requirement for its bonds. Per the Pledge of Revenues and Operation Agreement between the Board of Trustees of Lincoln County Hospital and Lincoln County, Kansas, dated December 15, 2008, which was signed in connection with the issuance of \$6,300,000 Lincoln County, Kansas Public Building Commission Revenue Bonds dated December 15, 2008, and ratified and confirmed with the issuance of \$5,330,000 Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds dated October 6, 2016, supplemental lease, the Hospital is required to engage a consultant to review its operations and charge structure in order to make recommendations to the Hospital. The Hospital engaged a consultant to review the operations of its clinic and emergency room, both sources of significant losses. The consultant's report has made recommendations that management is currently reviewing and is formulating a plan to implement operational changes which are expected to lead to incremental financial improvement.

As noted in Note N, subsequent to year-end, the Hospital applied for and received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan in the amount of \$678,787. The Hospital is eligible for loan forgiveness of up to 100 percent of the loan dependent upon meeting certain requirements. While the portion of loan forgiveness represents a gain contingency, the Hospital initiated steps to maximize loan forgiveness which is subject to SBA approval upon submitting the PPP forgiveness application which is expected to occur prior to December 31, 2020.

The Hospital also received several grants as a result of the coronavirus pandemic. The Hospital received significant grant funding from the federal government from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) to compensate the Hospital for loss of revenues and to be used to prevent, prepare for, or respond to coronavirus. These funds represent conditional grants and it is uncertain at the present how much of the grant funds the Hospital will be able to recognize until final guidance and reporting requirements are released. In addition, the Hospital received a \$100,000 unrestricted grant from the State of Kansas.

**Lincoln County Hospital**  
**Notes to Financial Statements - Continued**  
**March 31, 2020 and 2019**

**Note M - Uncertainties - Continued**

Management believes that the anticipated forgiveness of the PPP loan and the unrestricted grant from the State of Kansas will benefit the Hospital's net position in the short-term. Additional temporary support is expected to be recognized from the provider relief funds received through the CARES Act. In addition, successful implementation of the consultant's recommendations will result in annual savings which will help decrease the continued losses from operations that have been reported in recent years. Management believes the actions taken will enable the Hospital to generate sufficient cash flows to sustain operations.

**Note N - 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.

The Hospital has been negatively impacted by the effects of the worldwide coronavirus pandemic which began in the United States in March 2020. To assist hospitals during this period of disruption, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES) to provide financial assistance. The Hospital also applied for and received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan. The PPP loan is uncollateralized and fully guaranteed by the federal government. The Hospital is eligible for loan forgiveness of up to 100 percent of the loan dependent upon meeting certain requirements. As of the date of issuance of these financial statements, the full impact of this event to the Hospital's financial position is not known.

## **Supplementary Information**

**Lincoln County Hospital  
Patient Service Revenue  
Year ended March 31,**

	2020			2019
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine services				
Adults and pediatrics	<u>\$ 1,593,868</u>	<u>\$ -</u>	<u>\$ 1,593,868</u>	<u>\$ 1,154,224</u>
Ancillary services				
Operating room	1,756		1,756	19,062
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	55,908	393,673	449,581	512,820
CT scan and MRI	51,243	680,625	731,868	828,270
Laboratory and blood	160,551	1,128,247	1,288,798	1,356,016
Physical therapy	100,436	543,404	643,840	526,545
Occupational therapy	119,047	288,090	407,137	404,888
Speech therapy	3,388	22,323	25,711	36,698
Electrocardiology	5,083	78,312	83,395	83,583
Medical supplies	172,971	9,917	182,888	196,696
Pharmacy	387,068	289,575	676,643	820,590
Sleep lab		20,250	20,250	26,250
Emergency room	4,729	483,261	487,990	392,070
Treatment room		52,257	52,257	70,222
Observation care	3,298	59,836	63,134	51,393
Clinic and physician		843,908	843,908	879,411
	<u>1,065,478</u>	<u>4,893,678</u>	<u>5,959,156</u>	<u>6,204,514</u>
	<u>\$ 2,659,346</u>	<u>\$ 4,893,678</u>	<u>7,553,024</u>	<u>7,358,738</u>
Less				
Contractual adjustments - third-party payors			(764,541)	(419,744)
Charity care			(16,823)	(13,037)
Administrative discounts			(77,241)	(48,444)
Provision for bad debts			<u>(138,639)</u>	<u>(239,030)</u>
Net patient service revenue			<u>\$ 6,555,780</u>	<u>\$ 6,638,483</u>

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

	2020			2019		
	<u>Salaries</u>	<u>Supplies and other, employee benefits, and depreciation</u>	<u>Total</u>	<u>Salaries</u>	<u>Supplies and other, employee benefits, and depreciation</u>	<u>Total</u>
Routine services						
Adults and pediatrics	\$ 657,577	\$ 430,438	\$ 1,088,015	\$ 706,082	\$ 378,406	\$ 1,084,488
Ancillary services						
Operating room					3,706	3,706
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	123,783	257,981	381,764	155,731	194,778	350,509
CT scan and MRI	13,135	36,766	49,901	17,782	40,798	58,580
Laboratory and blood	134,236	182,171	316,407	125,492	203,167	328,659
Physical therapy		215,559	215,559		174,608	174,608
Occupational therapy		162,593	162,593		136,528	136,528
Speech therapy		25,206	25,206		25,522	25,522
Electrocardiology	1,953		1,953	2,087		2,087
Medical supplies	30,346	50,902	81,248	28,296	57,209	85,505
Pharmacy		261,923	261,923		340,214	340,214
Sleep lab		4,650	4,650		5,850	5,850
340B drug program		507,546	507,546		554,868	554,868
Emergency room	555,153	187,279	742,432	467,042	273,192	740,234
Clinic and physician	1,231,306	242,841	1,474,147	1,006,381	266,670	1,273,051
Other	2,354		2,354	1,444		1,444
	<u>2,092,266</u>	<u>2,135,417</u>	<u>4,227,683</u>	<u>1,804,255</u>	<u>2,277,110</u>	<u>4,081,365</u>
General services						
Administration and general	92,878	378,438	471,316	114,954	478,530	593,484
Accounting	200,495	337,494	537,989	192,336	307,517	499,853
Plant operations and maintenance	59,903	241,315	301,218	57,894	202,778	260,672
Laundry	29,960	22,120	52,080	31,241	28,547	59,788
Housekeeping	69,292	29,664	98,956	66,507	32,709	99,216
Dietary	176,954	131,984	308,938	180,506	132,727	313,233
Nursing administration	131,551	36,789	168,340	139,669	41,209	180,878
Medical records	114,990	49,503	164,493	109,169	50,793	159,962
Education and activities	48,445	20,348	68,793	45,314	18,262	63,576
Patient care coordination	89,253	20,483	109,736	87,551	19,520	107,071
Employee benefits - other		443,456	443,456		389,946	389,946
Depreciation		570,848	570,848		626,938	626,938
	<u>1,013,721</u>	<u>2,282,442</u>	<u>3,296,163</u>	<u>1,025,141</u>	<u>2,329,476</u>	<u>3,354,617</u>
	<u>\$ 3,763,564</u>	<u>\$ 4,848,297</u>	<u>\$ 8,611,861</u>	<u>\$ 3,535,478</u>	<u>\$ 4,984,992</u>	<u>\$ 8,520,470</u>