EDWARDS COUNTY HOSPITAL,
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Financial Statements

Years Ended December 31, 2021 and 2020

(Together With Independent Auditor's Report)

EDWARDS COUNTY HOSPITAL,
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

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Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Edwards County Hospital, d/b/a Edwards County Medical Center
Kinsley, Kansas:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center, a component unit of Edwards County, Kansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements which collectively comprise Edwards County Hospital, d/b/a Edwards County Medical Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edwards County Hospital, d/b/a Edwards County Medical Center as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Edwards County Hospital, d/b/a Edwards County Medical Center 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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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 Edwards County Hospital, d/b/a Edwards County Medical Center'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, the *Kansas Municipal Audit Guide*, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, the *Kansas Municipal Audit and Accounting Guide* 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 Edwards County Hospital, d/b/a Edwards County Medical Center'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 Edwards County Hospital, d/b/a Edwards County Medical Center's ability to continue as a going concern for a reasonable period of time.

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

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and other post benefits information on pages 35 through 37 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 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.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Edwards County Hospital, d/b/a Edwards County Medical Center's basic financial statements. The accompanying 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* (Uniform Guidance) (Schedule 4), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2022, on our consideration of Edwards County Hospital, d/b/a Edwards County Medical Center'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 Edwards County Hospital, d/b/a Edwards County Medical Center'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 Edwards County Hospital, d/b/a Edwards County Medical Center's internal control over financial reporting and compliance.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
September 15, 2022

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Financial Position

December 31, 2021 and 2020

Assets and Deferred Outflows of Resources	2021	2020
Current assets:		
Cash and cash equivalents	$ 2,589,594	3,184,832
Restricted cash - COVID-19 funds	1,760,662	2,021,723
Receivables:		
Patient, net of estimated uncollectibles of $1,180,607 in 2021 and $641,007 in 2020	1,965,198	1,951,078
Estimated third-party payor settlements	195,809	646,660
Noncapital appropriations - Edwards County	374,700	238,047
Other	194,665	206,782
Supplies	201,184	208,181
Prepaid expenses and other	199,593	92,843
Total current assets	7,481,405	8,550,146
Noncurrent cash equivalents, internally designated for capital improvements	801,983	463,202
Capital assets:		
Capital assets	10,047,629	9,231,454
Less accumulated depreciation	7,809,952	7,657,800
Net capital assets	2,237,677	1,573,654
Total assets	10,521,065	10,587,002
Deferred outflows of resources:		
Pension	1,133,044	1,404,069
OPEB	34,100	60,481
Total deferred outflows of resources	1,167,144	1,464,550
	$ 11,688,209	12,051,552

See accompanying notes to financial statements.

Liabilities, Deferred Inflows of Resources, and Net Position	2021	2020
Current liabilities:		
Current maturities of long-term debt	$ 21,107	358,003
Accounts payable	519,752	305,995
Advanced grants - COVID-19 funds	1,760,662	2,021,723
Medicare advance payment	-	1,744,844
Accrued expenses	652,017	646,305
Total current liabilities	2,953,538	5,076,870
Long-term debt, less current maturities	62,350	-
Program (PPP) loan, less current maturities	-	717,797
Net pension liability	2,835,629	4,138,024
Total OPEB liability	313,570	316,910
Total liabilities	6,165,087	10,249,601
Deferred inflows of resources:		
Pension	1,059,842	53,199
OPEB	58,570	65,425
Noncapital appropriations - Edwards County	374,700	238,047
Total deferred inflows of resources	1,493,112	356,671
Net position:		
Net investment in capital assets	2,154,220	1,215,651
Unrestricted	1,875,790	229,629
Total net position	4,030,010	1,445,280
	$ 11,688,209	12,051,552

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Net patient service revenue	$ 9,042,257	8,366,819
Provision for bad debts	(428,386)	(491,342)
Net patient service revenue, less provision for bad debts	8,613,871	7,875,477
Other revenue	459,362	545,691
Total operating revenues	9,073,233	8,421,168
Operating expenses:		
Salaries and wages	5,106,715	4,869,045
Employee benefits	1,371,860	1,474,555
Purchased services and professional fees	1,807,552	1,289,523
Supplies and other	2,212,561	1,856,759
Depreciation and amortization	239,111	233,591
Total operating expenses	10,737,799	9,723,473
Operating loss	(1,664,566)	(1,302,305)
Nonoperating revenues (expenses):		
Noncapital appropriations - Edwards County	513,696	513,696
Interest from deposit accounts and other receivables	16,423	6,390
Interest expense	(17,273)	(20,087)
Grants - COVID-19 funds	1,112,100	1,760,000
Noncapital grants and contributions	93,010	32,800
Paycheck Protection Program loan forgiveness	2,155,517	-
Loss on the disposal of capital assets	(24,019)	-
Total nonoperating revenues	3,849,454	2,292,799
Excess of revenues over expenses	2,184,888	990,494
Capital grants and contributions	100,000	17,771
Capital grants and contributions - COVID-19 funds	299,842	-
Increase in net position	2,584,730	1,008,265
Net position, beginning of year	1,445,280	437,015
Net position, end of year	$ 4,030,010	1,445,280

See accompanying notes to financial statements.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

Change in Cash and Cash Equivalents	2021	2020
Cash flows from operating activities:		
Receipts from or on behalf of patients	$ 7,317,875	8,300,546
Payments to suppliers and contractors	(3,906,109)	(2,999,204)
Payments to and on behalf of employees	(6,481,404)	(5,956,197)
Other receipts and payments, net	459,362	545,691
Net cash used by operating activities	(2,610,276)	(109,164)
Cash flows from noncapital financing activities:		
Noncapital appropriations - Edwards County	513,696	513,696
Noncapital grants and contributions	93,010	32,800
Paycheck Protection Program loan proceeds	1,067,058	1,075,800
Covid-19 funds received	1,150,881	3,781,723
Interest paid on financed ZPIC and CMS extended repayment settlements, net	-	(10,827)
Net cash provided by noncapital financing activities	2,824,645	5,393,192
Cash flows from capital and related financing activities:		
Purchase of capital assets	(826,653)	(199,246)
Principal payments on long-term debt	(17,043)	(219,261)
Interest paid on long-term debt	(4,614)	(9,260)
Capital grants and contributions	100,000	17,771
Net cash used by capital and related financing activities	(748,310)	(409,996)
Cash flows from investing activities, interest received	16,423	6,390
Net increase (decrease) in cash and cash equivalents	(517,518)	4,880,422
Cash and cash equivalents, beginning of year	5,669,757	789,335
Cash and cash equivalents, end of year	$ 5,152,239	5,669,757
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 2,589,594	3,184,832
Restricted cash	1,760,662	2,021,723
Cash and cash equivalents in noncurrent cash and investments	801,983	463,202
	$ 5,152,239	5,669,757

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Cash Flows
(Continued)
Years Ended December 31, 2021 and 2020

Reconciliation of Operating Loss to Net Cash Used by Operating Activities	2021	2020
Operating loss	$ (1,664,566)	(1,302,305)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	239,111	233,591
Provision for bad debts	428,386	491,342
Decrease (increase) in:		
Patient accounts receivable	(442,506)	(1,387,264)
Estimated third-party payor settlements	450,851	63,340
Other receivables	12,117	(56,834)
Supplies	6,997	23,359
Prepaid expenses	(106,750)	(43,789)
Deferred outflows of resources	297,406	(584,701)
Increase (decrease) in:		
ZPIC and CMS extended repayment settlements	-	(430,359)
Accounts payable - trade	213,757	167,508
Accrued expenses other	5,712	85,935
Medicare accelerated payments	(1,744,844)	1,744,844
Deferred inflows of resources - pension and OPEB	999,788	(53,910)
Net pension liability	(1,302,395)	923,257
Total OPEB liability	(3,340)	16,822
Net cash used by operating activities	$ (2,610,276)	(109,164)

Supplemental Disclosures of Cash Flows Information

	2021	2020
Equipment financed through capital lease arrangement	$ 100,500	-
Paycheck Protection Program interest forgiven	$ (12,659)	-

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center (the Hospital), a component unit of Edwards County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting entity

The Hospital is an acute care hospital located in Kinsley, Kansas. The Hospital is a component unit of Edwards County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care to patients in the County area.

The financial statements of the Hospital reporting entity are intended to present the financial position, changes in financial position and cash flows of the Hospital. They do not purport to, and do not, present fairly the financial position, changes in financial position or cash flows of the County as of and for the years ended December 31, 2021 and 2020.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have any component units which meet the GASB criteria.

Tax exempt status

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also obtained 501(c)(3) status with the Internal Revenue Service.

(Continued)

Measurement focus and basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

Basis of presentation

The statement of financial position displays the Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

The Hospital had no restricted net position at December 31, 2021 and 2020.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

(Continued)

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, liabilities and deferred outflows and inflows of resources, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated cash and investments. For purposes of the statements of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collection procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Noncapital appropriations receivable and revenue

Noncapital appropriations received from the County consist of property taxes and specific budgeted operating appropriations. Annually, the Hospital submits budgets to the County for approval of both amounts for the next fiscal year. The budgets are approved by the Edwards County Board of Commissioners, generally in August, and utilized to establish the property tax levies. A specific levy in connection with the property taxes is assigned to the Hospital.

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In accordance with governing State statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. Property owners have the option of paying on half or the full balance of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. The County Treasurer is the tax collection agent for all taxing entities within the County, including the Hospital. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1 of the ensuing year.

As such taxes are a lien on properties during the current year, but not received by the Hospital until the ensuing year, such noncapital appropriations are recorded as a receivable as of December 31. For revenue recognition purposes, taxes levied during the current year are not available to the Hospital until the ensuing year due to State statute and, as such, are recognized as a deferred inflow of resources.

The operating appropriations received from the County are accounted for as a budgeted line item within the County's financial statements. State statues allow transferring budgeted amounts within the line items within an individual fund; therefore, there are no restrictions on the County for distributing these funds to the Hospital. Accordingly, amounts are recognized as revenue upon approval of the Hospital's submitted budget by the County.

Supplies

Supply inventories are stated at the lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent cash equivalents

Noncurrent cash equivalents are set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets that are available for obligations classified as current liabilities are reported in current assets.

(Continued)

Capital assets

Capital assets acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Useful lives are determined using the general guidelines set forth in the American Hospital Association Guide for Estimated Useful lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

	Life in Years
Land improvements	10-20
Buildings	15-40
Fixed equipment	5-20
Moveable equipment	3-20

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Hospital has deferred outflows of resources related to pension and total other postemployment benefits (OPEB) liabilities. Deferred outflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, other differences between expected and actual experience, and contributions from the employer after the measurement date but before the end of the Hospital's reporting period. The Hospital's deferred outflows of resources are recognized as a component of compensation expense in the following year related to employer contributions, compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the related pension of OPEB plan.

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Compensated absences

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. Sick leave benefits are realized as paid time off and are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of financial position date plus an additional amount for compensated-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The liability for compensated absences is reported within accrued expenses in the accompanying financial statements.

Cost-sharing defined benefit pension plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, pension expense, and information about the fiduciary net position of KPERS and additions to/deductions from KPERS's fiduciary net positions have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred inflows of resources

Deferred inflows of resources represent an increase in net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. The Hospital has deferred inflows of resources related to pension and OPEB liabilities. The deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience, all associated with the Hospital's participation in the related KPERS pension or OPEB plans. In addition, deferred inflows of resources include noncapital appropriations from the County related to the ensuing year's budget and grants received that relate to a future period. The Hospital's deferred inflows of resources related to pensions are recognized as a component of compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the related plans. Noncapital appropriations are recognized as inflows of resources in the period the amounts become available and grants are recognized as revenue when earned.

(Continued)

Operating revenues and expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

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 rates. Payment arrangements include reimbursed costs, prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, 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.

Charity care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was $89,500 and $40,000 for years ended December 31, 2021 and 2020, respectively, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and contributions

From time to time, the Hospital receives 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 either 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.

(Continued)

(2) 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 rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Hospital is designated as a Critical Access Hospital (CAH). As a CAH, inpatient acute, inpatient nonacute (swing-bed), and outpatient services provided to Medicare beneficiaries are paid based on a cost reimbursement methodology (plus an additional 1% of cost). For these services, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services that are reimbursed under prospectively determined per diem rates or fee schedules. 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 by the MAC through December 31, 2019.

  The “Budget Control Act of 2011” requires, among other things, mandatory across the board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments. On March 27, 2020, the CARES act temporarily exempted Medicare from the effects of sequestration. This exemption is in effect from May 1, 2020 through March 31, 2022. This exemption was in effect from May 1, 2020 through March 31, 2022. From April 1, 2022 to June 30, 2022, a 1% reduction will occur and after June 30, 2022, the full 2% reduction will apply again.

- **Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

(Continued)

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's net patient service revenues for the years ended December 31, 2021 and 2020:

	2021	2020
Medicare	53%	55%
State-sponsored Medicaid program	2	4
Commercial insurance	41	37
Uninsured	4	4
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

ZPIC settlement

The Hospital is involved in an investigation regarding specific third-party payor program billing issues associated with the geriatric psychiatry unit. The investigation was conducted through the Medicare Zone Program Integrity Contractor (ZPIC) program. Ultimately, it was determined that the Hospital was subject to a repayment to Medicare based on this investigation. During 2015, the Hospital negotiated long-term payment terms with Medicare to repay this amount over a 60-month term. The Hospital has made additional payments throughout the term and paid the note in full during 2018. The Hospital was contesting certain ZPIC repayments and during 2021 was awarded a final settlement of $65,053, including interest of $10,731, and included as a nonoperating activity.

Related to the ZPIC investigation and liability to Medicare, the Hospital had an agreement with a third-party vendor under which the vendor would reimburse the Hospital 50% of the amounts recovered by Medicare. All amounts receivable under this arrangement were received as of December 31, 2019. Under this agreement, any amounts subsequently recovered by the Hospital from Medicare require 50% to be returned to the third-party vendor. At December 31, 2021, the Hospital has recorded a payable for 50% of the above final settlement due the third-party vendor.

(Continued)

CMS extended repayment settlement

During 2018, the Hospital entered into an extended repayment agreement with Centers for Medicare and Medicaid Services (CMS) as the result of the final settlement of the cost report for the year ended December 31, 2016 totaling $536,373. The Hospital negotiated long-term payment terms with CMS to repay this amount in monthly installments of $11,560 over a 60-month term, which includes interest at 10.25% (note 8). The Hospital fully repaid all remaining amounts associated with this agreement in 2020.

(3) COVID-19 Funds

In December 2019, a novel strain of the coronavirus (COVID-19) originated in Wuhan, China and spread to other countries, including the United States of America (U.S.). On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and on March 13, 2020 the President of the United States of America declared an emergency under sections 201 and 301 of the National Emergencies Act. Since this declaration, the Hospital has operated within the guidelines provided by both state and federal regulatory agencies. Additionally, many state and local governments instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions have impacted the Hospital's services. The U.S. Congress passed the Families First Coronavirus Response Act, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the American Rescue Plan Act (ARP Act) to both health care providers, such as the Hospital, and the general public to assist during the duration of the pandemic.

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various Provider Relief Funds to distribute funds to healthcare providers. The Hospital received Provider Relief Fund distributions of $1,035,662 and $3,661,723 during the years ended December 31, 2021 and 2020, respectively. The terms and conditions associated with accepting the Provider Relief Funds can vary based on the specific distribution received. The majority of the funds received by the Hospital specifically state they can only be used to prevent, prepare for, and respond to coronavirus healthcare-related expenses or for lost revenues that are attributable to the coronavirus. Recipients are required to file reports with HHS regarding the use of these funds for eligible purposes. Any unused funds are required to be returned to HHS.

(Continued)

The Hospital considers the receipt of the funds a voluntary nonexchange transaction and recorded the amounts received as Advanced grants – COVID-19 funds (liability). The liability is being derecognized and nonoperating revenue recognized, or grants restricted for capital assets, if used to purchase capital assets, as the terms and conditions are determined to be substantially met by the Hospital. The Hospital believes it has met certain terms and conditions during the applicable reporting periods and therefore recognized $1,300,572 and $1,640,000 as grants – COVID-19 funds and capital grants – COVID-19 funds for the years ended December 31, 2021 and 2020, respectively. The remaining funds are being reported as a current liability, Advanced grants – COVID-19 funds.

The Hospital also received grant funds from the State of Kansas and other organizations totaling $111,370 and $120,000 during the years ended December 31, 2021 and 2020, respectively, to use for COVID-19 related expenses. The Hospital recognized $111,370 and $120,000 as grants – COVID-19 funds for the years ended December 31, 2021 and 2020, respectively.

The laws and regulations associated with the CARES Act funds are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Additionally, the CARES Act amended the existing CMS Accelerated Payments Program to provide additional benefits and flexibilities to hospitals covered in the CARES Act. The Hospital requested the maximum amounts available under this program and received $1,744,844 in advance payments from Medicare during 2020. The recoupment of these funds was to begin one year from their receipt. The Hospital could elect to repay all or a portion of these funds prior to the date recoupment was supposed to start. The Hospital reported the entire amount as a current liability titled Medicare advance payment at December 31, 2020 and made a lump sum repayment for the full amount on April 9, 2021.

(Continued)

(4) Deposits

The carrying amounts of the Hospital's deposits as of December 31, 2021 and 2020 were $5,152,239 and $5,669,757, respectively.

Deposits are reported in the following statements of financial position captions:

	2021	2020
Cash and cash equivalents	$ 2,589,594	3,184,832
Restricted cash – COVID-19 funds	1,760,662	2,021,723
Noncurrent cash equivalents – internally designated	801,983	463,202
	$ 5,152,239	5,669,757

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state laws. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Kansas; bonds of any city, county, school district or special road district of the State of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amounts of the deposits. The Hospital's deposits in banks at December 31, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

(Continued)

(5) Capital Assets

Capital assets additions, transfers/retirements, and balances for the years ended December 31, 2021 and 2020 are as follows:

	2020	Additions	Transfers/ Retirements	2021
Historical costs				
Land – not depreciated	$ 55,662	-	-	55,662
Construction in progress – not depreciated	134,781	841,307	(567,067)	409,021
Land improvements	122,166	196,695	-	318,861
Buildings	4,174,999	224,561	(7,970)	4,391,590
Fixed equipment	2,142,470	75,000	-	2,217,470
Moveable equipment	2,601,376	156,657	(103,008)	2,655,025
Total historical costs	9,231,454	1,494,220	(678,045)	10,047,629
Less accumulated depreciation				
Land improvements	(122,166)	(5,678)	-	(127,844)
Buildings	(3,403,364)	(59,550)	7,970	(3,454,944)
Fixed equipment	(1,844,087)	(53,674)	-	(1,897,761)
Moveable equipment	(2,288,183)	(120,209)	78,989	(2,329,403)
Total accumulated depreciation	(7,657,800)	(239,111)	86,959	(7,809,952)
Net capital assets	$ 1,573,654	1,255,109	(591,086)	2,237,677

(Continued)

	2019	Additions	Transfers/ Retirements	2020
Historical costs				
Land – not depreciated	$ 55,662	-	-	55,662
Construction in progress – not depreciated	32,085	128,396	(25,700)	134,781
Land improvements	122,166	-	-	122,166
Buildings	4,162,599	12,400	-	4,174,999
Fixed equipment	2,142,470	-	-	2,142,470
Moveable equipment	2,517,226	58,450	25,700	2,601,376
Total historical costs	9,032,208	199,246	-	9,231,454
Less accumulated depreciation				
Land improvements	(122,166)	-	-	(122,166)
Buildings	(3,344,627)	(58,737)	-	(3,403,364)
Fixed equipment	(1,790,467)	(53,620)	-	(1,844,087)
Moveable equipment	(2,166,949)	(121,234)	-	(2,288,183)
Total accumulated depreciation	(7,424,209)	(233,591)	-	(7,657,800)
Net capital assets	$ 1,607,999	(34,345)	-	1,573,654

Construction in progress at December 31, 2021 consists of a generator project totaling $295,580 with additional cost of $41,000 expected to be completed in 2022 and a kitchen remodel project, with costs incurred through December 31, 2021 of $100,528, with expected additional cost of $153,550, including $33,738 of remaining commitments to contractors. The remaining amount relates to other miscellaneous equipment not placed in service as of December 31, 2021.

(6) Leases

The Hospital leased certain equipment under non-cancelable long-term agreements. Certain leases had been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2021 and 2020 for all operating leases was $4,592 and $1,902, respectively. The capitalized lease assets consist of:

	2021	2020
Major movable equipment	$ 100,500	457,720
Less accumulated amortization	(14,470)	(457,720)
	$ 86,030	-

(Continued)

Minimum future lease payments for capital leases are as follows:

Years Ending December 31,	Amount
2022	$ 25,676
2023	22,008
2024	22,008
2025	22,008
Total minimum lease payments	91,700
Less interest at a rate of 3.81%	(8,243)
Present value of minimum lease payments – note 8	$ 83,457

(7) Paycheck Protection Program Loan

The Paycheck Protection Program (PPP) was established by the CARES Act to provide a direct incentive for small businesses to keep their workers on payroll during the COVID-19 pandemic. The PPP loans were administered by the Small Business Administration (SBA) and provided direct loans to qualifying business entities through SBA approved lending institutions (banks). The funds were intended to be used for paying employee wages and other critical expenses, such as mortgage interest and utilities. The PPP loans were two or five-year promissory notes with a 1% interest rate, with six months of deferred interest payments and required no collateral or personal guarantees. Additionally, the entire loan and applicable interest, or a portion thereof, could qualify for forgiveness if the proceeds were used for defined forgivable purposes, such as employee wages and benefits, that were incurred and paid within a covered time period and other stipulations were met.

The Hospital applied for and received a PPP loan totaling $1,075,800 on April 27, 2020. The loan carried a 1% interest rate, with repayments deferred until loan forgiveness was submitted for or 10 months after the end of the covered period of the loan forgiveness period (8 or 24 weeks) if forgiveness is not requested. The Hospital filed for and received complete forgiveness of all principal and interest, a total amount of $1,083,390, on January 6, 2021.

A second round of PPP loan funding was established with the passing of the Consolidated Appropriations Act, 2021 in December of 2020. The Hospital applied for a received a second PPP loan on May 10, 2021 totaling $1,067,058 with similar terms as the first found of PPP funding. The Hospital filed for and received complete forgiveness of all principal and interest, a total amount of $1,072,127, on October 28, 2021.

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(8) Long-Term Liabilities

A schedule of the Hospital's long-term liabilities for 2021 and 2020 is as follows:

	Balance December 31, 2020	Additions/ Adjustments	Payments/ Adjustments	Balance December 31, 2021	Due Within One Year
Long-term debt, capital leases – note 6	$ -	100,500	(17,043)	83,457	21,107
Other noncurrent liabilities:					
PPP Loan – note 7	1,075,800	1,067,058	(2,142,858)	-	-
Net pension liability – note 9	4,138,024	-	(1,302,395)	2,835,629	-
Total OPEB liability – note 10	316,910	-	(3,340)	313,570	-
Total long-term liabilities	$ 5,530,734	1,167,558	(3,465,636)	3,232,656	21,107

	Balance December 31, 2019	Additions/ Adjustments	Payments/ Adjustments	Balance December 31, 2020	Due Within One Year
Long-term debt, capital leases – note 6	$ 219,261	-	(219,261)	-	-
Other noncurrent liabilities:					
PPP Loan – note 7	-	1,075,800	-	1,075,800	358,003
CMS extended repayment settlement – note 2	430,359	-	(430,359)	-	-
Net pension liability – note 9	3,214,767	923,257	-	4,138,024	-
Total OPEB liability – note 10	300,088	16,822	-	316,910	-
Total long-term liabilities	$ 4,164,475	2,015,879	(649,620)	5,530,734	358,003

(Continued)

(9) Pension Plan

Plan description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement Systems (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four employee groups participating in the plan:

- State/School
- Local
- Police and Fireman
- Judges

The Hospital's employees participate in the Local group.

Benefits provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

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Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62 and 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for an annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014 for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2021 and 2020 were 8.87% and 8.61%, respectively, of annual payroll. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for the pension plan for the years ended December 31, 2021 and 2020 were $410,054 and $385,540, respectively.

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Net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources related to pension plan

At December 31, 2021 and 2020, the Hospital reported a liability of $2,835,629 and $4,138,024, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2020 and 2019, rolled forward to June 30, 2021 and 2020. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2021, the Hospital's proportion was 0.236311%, which was a decrease of 0.002377% from its proportion measured as of June 30, 2020, of 0.238688%. At June 30, 2019, the proportion was 0.230058%.

For the years ended December 31, 2021, 2020, and 2019, the Hospital recognized pension expense of $385,327, $695,349, and $508,618, respectively. At December 31, 2021 and 2020, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 111,929	25,675	69,092	53,199
Net difference between projected and actual earnings on pension plan investments	-	1,006,924	482,805	-
Changes in assumptions	558,197	-	249,246	-
Changes in proportion	258,671	27,243	410,577	-
Hospital's contributions subsequent to the measurement date	204,247	-	192,349	-
	$ 1,133,044	1,059,842	1,404,069	53,199

(Continued)

At December 31, 2021, the Hospital reported $204,247 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2021 will be recognized in pension expense as follows:

Years Ending December 31,	Amount
2022	$ 89,246
2023	41,733
2024	(41,403)
2025	(239,291)
2026	18,670
Total	$(131,045)

Actuarial Assumptions

The total pension liability in the December 31, 2020 and 2019 actuarial valuations were determined using the following actuarial assumptions applied to all periods included in the measurement:

	2020	2019
Price inflation	2.75%	2.75%
Salary increases	3.5% to 12%	3.25% to11.75%
Investment rate of return, net of pension plan investment expense, including inflation	7.25%	7.75%

The December 31, 2020 and 2019 actuarial valuations used mortality rates based on the RP-2014 Mortality Table, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study for the thee-year period ended December 31, 2018.

(Continued)

The long-term expected rate of return on pension plan investments was determined using the building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class for both 2021 and 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equities	23.50%	5.20%
Non-U.S. equities	23.50	6.40
Private equity	8.00	9.50
Private real estate	11.00	4.45
Yield driven	8.00	4.70
Real return	11.00	3.25
Fixed income	11.00	1.55
Short-term investments	4.00	.25
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.50% for the years ended June 30, 2021 and 2020, respectively. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employee contribution rates certified by the KPERS Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.25%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of December 31, 2021.

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Hospital's proportionate share of the net pension liability	$ 4,664,334	2,835,629	1,302,028

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

(10) Other Postemployment Benefits (OPEB)

Plan description

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a Board of Trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS' governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

(Continued)

Benefits

The OPEB Plan provides long-term disability (LTD) and life insurance benefits to eligible disabled members. Benefits provided are self-funded and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever occurs first. Upon the death of a member who is receiving monthly disability benefits, the OPEB Plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

Total OPEB liability

At December 31, 2021 and 2020, the Hospital reported a liability of $313,570 and $316,910, respectively, related to its total OPEB liability. The total OPEB liability was measured as of June 30, 2021 and 2020, using actuarial valuations as of December 31, 2020 and 2019, rolled forward to June 30, 2021 and 2020. The following schedule shows the changes in the Hospital's total OPEB liability for the years ended December 31, 2021 and 2020:

	2021	2020
Total OPEB liability, beginning of year	$ 316,910	300,088
Service cost	21,350	18,321
Interest	7,157	10,588
Differences between expected and actual experience	(3,515)	955
Changes in assumptions or other inputs	656	19,027
Benefit payments	(28,988)	(32,069)
Net change	(3,340)	16,822
Total OPEB liability, end of year	$ 313,570	316,910

(Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

There are 68 active members and 3 disabled members in the plan at the June 30, 2021 measurement date and 70 active members and 3 disabled members in the plan at the June 30, 2020 measurement date. For the years ended December 31, 2020 and 2019, the Hospital recognized OPEB expense of $39,119, and $36,437, respectively. At December 31, 2021 and 2020, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 14,251	48,241	16,353	52,996
Changes in assumptions or other inputs	19,849	10,329	21,788	12,429
Hospital's contributions subsequent to the measurement date	-	-	22,340	-
	$ 34,100	58,570	60,481	65,425

The deferred outflows of resources related to the contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2021 will be recognized in OPEB expense over the average expected remaining services life of the plan. The recognition will be as follows:

Years Ending December 31,	Amount
2022	$ 5,673
2023	5,673
2024	5,673
2025	5,673
2026	5,158
Thereafter	(3,380)
	$ 24,470

(Continued)

Actuarial Assumptions

The total OPEB liability in the December 31, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions, applied to all periods in the measurement:

	2020	2019
Price inflation	2.75%	2.75%
Discount rate	2.16%	2.21%
Salary increases, including inflation	3.5% to 10%	3.5% to10%

- Discount rate – 2.16%, 2.21% and 3.50 as of December 31, 2021, 2020 and 2019, based on the Bond Buyer General Obligation 20-Year Municipal Bond Index.
- Mortality – RP-2014 Total Dataset Mortality table full generational using scale MP-2021 for December 31, 2020 and MP-2020 for December 31, 2019.
- Experience study – Based on the actual KPERS experience study for the period January 1, 2016 to December 31, 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rates as of December 31, 2021 and 2020:

	1% Decrease (1.16%)	Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB liability at December 31, 2021	$ 326,772	313,570	300,568

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability at December 31, 2020	$ 332,252	316,910	302,055

The total OPEB liability of the Hospital is not impacted by healthcare trend rates given the nature of the benefits provided by the OPEB plan, as such no sensitivity tables were prepared for the healthcare trend rates.

(Continued)

(11) Designated Net Position

At December 31, 2021 and 2020, $801,983 and $463,202, respectively, of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes. Designated net position is reported as noncurrent cash equivalents, internally designated for capital improvements.

(12) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2021 and 2020 were as follows:

	2021	2020
Medicare	26%	37%
State-sponsored Medicaid program	5	8
Commercial insurances	31	31
Patients	38	24
	100%	100%

The Hospital received approximately 3.7% and 4.8% of its financial support from noncapital appropriations from Edwards County in 2021 and 2020, respectively.

(13) Contingencies

Risk management

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

(Continued)

Malpractice insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $200,000 per claim and an aggregate limit of $600,000. The Kansas Health Care Stabilization Fund provides an additional $800,000 of coverage per claim and an additional $2,400,000 of aggregate coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be insured.

Litigation, claims and disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Hospital's Proportionate Share of the Net Pension Liability (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 9)

	2021*	2020*	2019*	2018*	2017*	2016*	2015*	2014*
Hospital's proportion of the net pension liability	0.236311%	0.238688	0.230058	0.209920	0.187406	0.184597	0.177877	0.182953
Hospital's proportionate share of the net pension liability	$ 2,835,629	4,138,024	3,214,767	2,925,844	2,714,493	2,855,770	2,335,603	2,251,809
Hospital's covered employee payroll	$ 4,622,930	4,474,997	4,225,997	3,731,387	3,324,731	3,169,466	2,978,242	3,018,272
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	61.34%	92.47	76.07	78.41	81.65	90.10	78.42	74.61
Plan fiduciary net position as a percentage of the total pension liability	76.40%	66.30	69.88	68.88	67.12	65.10	64.95	66.60

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).

Note to the Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Hospital's Contributions (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 9)

	2021*	2020*	2019*	2018*	2017*	2016*	2015*	2014*
Contractually required contribution	$ 410,054	385,540	395,481	335,165	294,107	304,374	280,706	266,944
Contribution in relation to the contractually required contribution	410,054	385,540	395,481	335,165	294,107	304,113	280,706	266,944
Contribution deficiency	$ -	-	-	-	-	261	-	-
Hospital's covered employee payroll	$ 4,762,532	4,477,820	4,448,610	3,991,815	3,592,861	3,315,621	2,968,257	3,020,983
Contributions as a percentage of covered employee payroll	8.61%	8.61	8.89	8.39	8.19	9.17	9.46	8.84

*The amounts presented for each fiscal year are as of the most recent fiscal year-end (December 31).

Note to the Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Changes in the Total OPEB Liability and Related Ratios (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 10)

	2021*	2020*	2019*	2018*	2017*
Service cost	$ 21,350	18,321	14,484	14,258	13,336
Interest	7,157	10,588	10,914	13,344	11,649
Effect of economic/ demographic gains or losses	(3,515)	955	19,505	(76,759)	-
Changes in assumptions or other inputs**	656	19,027	5,897	(4,790)	(15,545)
Benefit payments	(28,988)	(32,069)	(36,119)	(37,934)	(54,705)
Net change in total OPEB liability	(3,340)	16,822	14,681	(91,881)	(45,265)
Total OPEB liability - beginning of year	316,910	300,088	285,407	377,288	422,553
Total OPEB liability - end of year	$ 313,570	316,910	300,088	285,407	377,288
Hospital's covered employee payroll	$ 4,437,426	4,561,015	4,274,531	3,584,813	3,139,132
Total OPEB liability as a percentage of covered employee payroll	7.07%	6.95	7.02	7.96	12.02
Discount rate	2.16%	2.21	3.50	3.87	

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).
**The discount rate changed from 2.21% to 2.16%.

Notes to the Schedule

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
United States Department of Health and Human Services:			
Direct Awards:			
COVID-19 Provider Relief Fund	93.498	N/A	$ 3,616,111
COVID-19 Testing and Mitigation for Rural health Clinics	93.697	N/A	49,461
Total			3,665,572
Passed Through to the State of Kansas Department of Health and Environment:			
COVID-19 Coronavirus Small Rural Hospital Improvement Program	93.301	N/A	63,613
Small Rural Hospital Improvement Program	93.301	N/A	11,820
			75,433
Total United States Department of Health and Human Services			3,741,005
United States Department of the Treasury:			
Passed Through to the State of Kansas Department of Health and Environment:			
SPARK Frontline Hospital Employee Retention Program	21.027	N/A	47,757
Total Expenditures of Federal Awards			$ 3,788,762

See accompanying notes to the schedule of expenditures of federal awards.

* * * * * *

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards activity of Edwards County Hospital, d/b/a Edwards County Medical Center (the Hospital) under programs of the federal government for the year ended December 31, 2021. The accompanying schedule presents total expenditures in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in this schedule may differ from the amounts presented in, or used in, the preparation of the basic financial statements.

B. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal activity of the Hospital under programs of the federal government for the year ended December 31, 2021 and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

C. Provider Relief Fund Reporting

Provider relief funds (PRF) are to be reported during four separate time periods. Period 1 reporting encompassed all PRF received from April 10, 2020 through June 30, 2020 with a measurement date for use of funds through June 30, 2021. Period 2 reporting includes all PRF received from July 1, 2020 through December 31, 2020 with a measurement date for use of funds through December 31, 2021. Period 3 reporting includes all PRF received from January 1, 2021 through June 30, 2021 with a measurement date for use of funds through June 30, 2022. Period 4 reporting includes all PRF received from July 1, 2021 to December 31, 2021 with a measurement date for use of funds through December 31, 2022. Accordingly, the amounts included on the accompanying schedule of expenditures of federal awards are for PRF subject to Periods 1 and 2 reporting.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

As previously noted, the PRF reporting timeline for Period 1 use of funds runs from April 10, 2020 through June 30, 2021, while Period 2 use of funds runs from July 1, 2021 through December 31, 2021. This has resulted in the Hospital's recognition and reporting for financial statement purposes not matching with the PRF reporting timeline. A reconciliation of total expenditures of PRF and other awards to amounts recognized in the Hospital's financial statements is as follows:

Total PRF included in the Expenditures of Federal Awards	$ 3,616,111
Amounts reflected in the audited financial statements, in the Statements of Revenues, Expenses and Changes in Net Position:	
Grants - COVID-19 programs FY2020	$ 1,640,000
Grants - COVID-19 programs FY2021 (including interest $3,849)	951,269
Grants restricted for capital assets - COVID-19 programs	299,842
Reserved for potential questioned costs	725,000
	$ 3,616,111

D. Indirect Cost Rate

The Hospital has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

DA&E DOHMAN, AKERLUND & EDDY, LLC
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Edwards County Hospital
d/b/a Edwards County Medical Center
Kinsley, Kansas:

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

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-003 to be material weaknesses.

(Continued)

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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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-004 and 2021-005 to be significant deficiencies.

* * * * * *

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 *Governmental Auditing Standards*.

The Hospital's Responses to Findings

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

* * * * * *

Other Reporting and Operating Comments

The following comments are directed not to deficiencies in internal control, but to our observations of the Hospital's operations and the financial reporting system in general:

NEW ACCOUNTING STANDARDS

The following new accounting standards will become effective over the next few years and may impact how the Hospital reports certain transactions. We recommend the Hospital be aware of the reporting periods these standards will become applicable for and begin the evaluation process to determine the impact they may have on the Hospital's financial reporting methodologies. Please contact us if you have any questions regarding the standards or require assistance with your review.

(Continued)

GASB Statement No. 87 – Lease Accounting Standard

In June 2017, the GASB issued Statement No. 87. This new statement requires a lessee to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term. The new standard, originally effective for fiscal years beginning after December 15, 2019, has been extended and is now effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA)

In May 2020, the GASB issued Statement No. 96. This new statement establishes that a SBITA results in the recognition of a right-to-use asset and a corresponding subscription liability and provides for capitalization criteria for outlays other than subscription payments, including implementation cost of a SBITA. The subscription liability should be initially measured as the present value of the subscription payments expected to be made during the subscription term. To the extent relevant, the standards for SBITA's are based on the standards established for GASB Statement No. 87, Leases, as amended previously discussed. The new standard is effective for fiscal years beginning after June 15, 2022 with earlier application encouraged.

FRAUD RISK ASSESSMENT

Based on the answers provided to us by management during our completion of internal control questionnaires and other related interviews, we noted there is currently no written policy requiring the annual performance of a fraud risk assessment. Therefore, we suggest the Hospital adopt a formal written policy regarding performance of an annual fraud risk assessment on the Hospital's internal accounting controls. The written policy should provide specific procedures to be performed and a requirement to provide a written report to the Hospital's Board of Trustees regarding the procedures performed, the results and findings, and any recommendations for changes to improve the system.

MANDATORY VACATION

We noted during the completion of our internal control questionnaires, the Hospital currently does not have a policy requiring mandatory consecutive two-week vacations on an annual basis for personnel involved in the Hospital's accounting and EDP process. Ideally, the Hospital would have a written policy requiring these employees to take a consecutive two-week vacation, with their duties being completed by another employee during their absence. We are aware the Hospital has a limited number of administrative employees and complete implementation of this suggestion may be somewhat difficult; however, a mandatory vacation policy can be a major tool in detection of potential fraudulent employee activity and therefore we suggest Hospital management consider implementation of such a policy to the greatest extent possible.

(Continued)

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.

Aurora, Nebraska
September 15, 2022

DA&E DOHMAN, AKERLUND & EDDY, LLC
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Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees
Edwards County Hospital
d/b/a Edwards County Medical Center
Kinsley, Kansas:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

(Continued)

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Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned cost as items 2021-006 and 2021-007. Our opinion on each major federal program is not modified with respect to these matters.

(Continued)

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

The Hospital is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Hospital's corrective action plan was not subjected to the auditing procedures applied to the audit of compliance and, accordingly, we express no opinion on it.

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 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 on a previous page 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**.**

Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dohman, Akerland & Eddy, LLC

Aurora, Nebraska
September 15, 2022

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with U.S. GAAP:	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiency(ies) identified?	X Yes ___ 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 deficiency(ies) identified?	___ Yes X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified Opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	X Yes __ No

Identification of major programs:

Program Name	CFDA
COVID-19 Provider Relief Fund	93.498

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

(Continued)

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2021-001 ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS

Criteria

The Hospital should have sufficient month and year-end review and reconciliation processes in place to avoid material adjusting journal entries being required to appropriately state year-end balances during the annual financial statement audit process.

Condition

During our audit procedures, material adjusting journal entries were determined to be necessary to appropriately state certain account balances as of December 31, 2021.

Cause

There were certain accounts that were not fully reconciled at year-end and audit adjustments were required to correctly state them.

Effect and recommendation

The final proposed audit adjustments had a material effect on the Hospital's final reported amounts. We recommend the Hospital review its current accounting processes and implement appropriate procedures to assure all controlling general ledger accounts are reconciled at the end of each month and adjusted as necessary to avoid future audit adjustments being required.

Views of responsible officials and planned corrective actions

Management agrees with this finding and has implemented a month-end process to improve the reconciliation of all balance sheet accounts and to justify the expense accounts. This change did not occur until July of 2022 and will improve going forward. Corrective 2022 entries have already been made and will continue as all balance sheet accounts are reconciled to avoid future audit adjustments.

FINDING 2021-002 GAAP FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Criteria

Management's preparation of the financial statements in accordance with GAAP.

Condition

The preparation of the Hospital's year-end financial statements in accordance with GAAP, which would include all required footnote disclosures, requires management to possess sufficient knowledge and expertise to select and apply appropriate accounting principles. As is a common situation at many small entities, management does not currently possess the qualifications to accomplish these responsibilities completely on their own.

Cause

Limited personnel available with detail GAAP knowledge to prepare year-end financial statements.

(Continued)

Effect and recommendation

Year-end financial statements, prepared in accordance with GAAP, are currently prepared by the Hospital with significant assistance from its financial statement auditors. We suggest management and accounting staff consider increasing internal responsibilities associated with the detail preparation of the annual financial statements by continuing education on financial accounting and reporting standards applicable to the Hospital.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue developing its staff's financial accounting and reporting knowledge. There has been some recent turnover in the department and enhanced education will be a part of the process. We are aiming to improve our ability to produce our financial statements and internal audits without external professional guidance.

FINDING 2021-003 SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Criteria

Appropriate segregation of duties to ensure that errors or irregularities are prevented or detected in a timely manner by employees during the normal course of business.

Conditions

Not all major accounting areas have complete segregation of duties.

Cause

The Hospital has limited personnel available to completely segregate all duties.

Effect and recommendations

The size of the Hospital and its staff sometimes limits the application of adequate segregation of duties. Although compensating controls exist within the Hospital's operations, the accounting controls should be reviewed periodically and consideration should be given to improving segregation of duties and developing procedures which additionally mitigate potential risks. The benefit derived versus the cost of proposed changes should be thoroughly reviewed prior to implementation of the changes. Specific areas noted with lack of segregation of duties are as follows:

- Accounts receivable (AR) and cash receipts processing
  - Although an outside entity generally performs all AR payment postings, Hospital personnel who physically handle or have access to cash receipts also have access to post payments.
  - Questions regarding AR statements are directed to personnel involved with the cash receipt process.
  - Charity care applications are processed by personnel involved with cash receipts. The CFO does formally approve them as a mitigating procedure.
- Accounts payable (AP) and cash disbursement processing
  - Signed checks are given back to the preparer for mailing.
  - No formal approval process for adding and tracking AP vendors in the system.

(Continued)

- Payroll processing
  - Personnel duties with payroll timekeeping and processing and completely segregated.
- Purchasing and inventory process
  - Personnel involved with purchasing also control receiving and disbursing of inventory items.

Ideally, no employees involved in the various processes should have more than one of the following functions/abilities:

- Physical access to items
- Ability to authorize the transaction
- Posting/recording of the transaction or system access to post/record the transaction

We suggest the above areas be reviewed to determine where internal control improvements could effectively be made.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue investigating into ways to change our processes with our staff limitations. Due to our facility and department size, it will be a challenge to apply necessary job duties to existing job descriptions without increasing control risks in other parts of the process. We will review and attempt to make changes in a cost-effective manner.

FINDING 2021-004 PAYROLL FLEX BENEFIT ACCOUNT – SIGNIFICANT DEFICIENCY

Criteria

All financial assets should be recorded in the Hospital's accounting records.

Condition

As noted in prior years, there is a cash account in the Hospital's name, used for depositing and disbursing employee payroll withholdings associated with benefits provided through an employee benefit cafeteria plan (flex spending account - FSA), that has never been recorded on the Hospital's books.

Cause

The Hospital's accounting department has not developed a process to assure this asset is accounted for correctly.

Effect and recommendation

Due to the account not being material, no adjusting journal entry was proposed related to the account for fiscal year 2021. We suggest management research the origin and historical activity of it to determine what the appropriate accounting treatment should be on an on-going basis.

(Continued)

Views of responsible officials and planned corrective actions

Management agrees with this finding; however, due to the fact the funds are employee-owned, management does not believe the cash account should be a part of the financial position of the Hospital. The account is tracked through a payable account and transactions are monitored monthly. Staff will work to review and improve controls where possible.

FINDING 2021-005 ACCOUNTING MANUAL – SIGNIFICANT DEFICIENCY

Criteria

The Hospital should have a formal documentation of its accounting processes for the various accounting areas.

Condition

The Hospital currently has very little formal documentation of its accounting processes and policies.

Cause

Hospital management has not developed a formal accounting manual.

Effect and recommendation

We recommend the Hospital prepare a formal accounting manual which should include, among other things, an up-to-date chart of accounts, adequate explanations of account content, and appropriate descriptions of all accounting procedures and routines. Once an accounting manual is established, any changes in the system or procedures would require a written revision of the manual and would be subject to approval by management.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will attempt to begin a formal documentation process to achieve the end goal of a professional manual. Due to our limited staff, this will take place over time.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

FINDING 2021-006

Federal program

CFDA Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund

(Continued)

Criteria/Condition

Lost revenues can be reported under 3 different methodologies. Management reported using option 3 - Alternative Reasonable Methodology. Under option 3, management compared its actual revenues per reporting quarter to its budgeted revenues for each respective quarter to determine which quarters reported lost revenues. During our mathematical testing of the calculations, we noted an error occurred resulting in the amount of lost revenues determined being overstated based on the methodology being used.

Cause

Management had an error in one of the formulas in its workbook used to determine lost revenue for each quarter.

Effect

Lost revenues appear to have been over reported by $628,664.

Questioned costs

Total questioned costs amounted to $628,664, which is related to the error discovered in management's calculation of lost revenues reported.

Perspective/Context

The error appears to be an isolated instance where an amount was carried incorrectly through each quarter due to formula errors in management's lost revenue calculation workbook.

Recommendation

We suggest Hospital management contact HRSA to see if the reporting portal can be reopened for the applicable reporting to correct the reporting error.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding. However, management believes it has additional costs that could have been reported to cover the above noted questioned costs. Management will continue to refine its processes to ensure lost revenue calculations are appropriately computed for future reporting periods.

FINDING 2021-007

Federal program

CFDA Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund

Criteria/Condition

The terms and conditions of the CARES Act provider relief fund state the expenses reported need to be for costs incurred to prevent, prepare for, and/or respond to coronavirus during the reporting period. Management inadvertently included certain cost items twice in its detail workbook summarizing the amounts for reporting in the portal.

(Continued)

Cause

Due to the amount of detailed information required to be compiled by management in order to accumulate the data to enter into the PRF reporting portal, management inadvertently included some specific cost items twice.

Effect

Management included amounts in the PRF reporting portal which were not eligible based on the terms and conditions of the PRF distributions.

Questioned costs

Total questioned costs amounted to $36,807 and were determined based off detail testing and review of the underlying supporting detail workbook used by management to accumulate cost reported on the PRF reporting portal.

Perspective/Context

The errors appear to be isolated instances where amounts were inadvertently listed twice in management's detail expense tracking workbook.

Recommendation

We suggest Hospital management contact HRSA to see if the reporting portal can be reopened for the applicable reporting to correct the reporting error.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding. However, management believes it has additional costs that could have been reported to cover the above noted questioned costs. Management will continue to refine its processes to ensure costs being tracked are not inadvertently included twice in the detail expense tracking workbook for future reporting periods.

EDWARDS COUNTY
Medical Center

September 15, 2022

CORRECTIVE ACTION PLAN

Edwards County Hospital, d/b/a Edwards Medical Center (the Hospital) respectfully submits the following corrective action plan for the year ended December 31, 2021.

Name and address of the Independent accounting firm:
Dohman, Akerlund, & Eddy, LLC
PO Box 470
Aurora, NE 68818

Audit period: As of and for the year ended December 31, 2021

The findings from the 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II – Financial Audit Statement Findings

FINDING 2021-001 ADJUSTING JOURNAL ENTRIES – MATERIAL WEAKNESS

Effect and recommendation
The auditors proposed audit adjustments that had a material effect on the Hospital's final reported amounts and recommended we review our current accounting processes and implement appropriate procedures to assure all controlling general ledger accounts are reconciled at the end of each month and adjusted as necessary to avoid future audit adjustments being required.

Views of responsible officials and planned corrective actions
Management agrees with this finding and has implemented a month-end process to improve the reconciliation of all balance sheet accounts and to justify the expense accounts. This change did not occur until July of 2022 and will improve going forward. Corrective 2022 entries have already been made and will continue as all balance sheet accounts are reconciled to avoid future audit adjustments.

Anticipated completion date
Completed

FINDING 2021-002 GAAP FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Effect and recommendation
Year-end financial statements, prepared in accordance with GAAP, are currently prepared by our management with significant assistance from the auditors. The auditors suggest we

review our current processes and determine whether it is a cost beneficial goal to be able to prepare year-end financial statements in accordance with GAAP with little or no assistance.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue developing its staff's financial accounting and reporting knowledge. There has been some recent turnover in the department and enhanced education will be a part of the process. We are aiming to improve our ability to produce our financial statements and internal audits without external professional guidance.

Anticipated completion date

Ongoing

FINDING 2021-003 SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Effect and recommendation

Lack of complete segregation of duties creates a higher risk of errors or irregularities not being prevented or detected in a timely manner. The auditors suggested the Hospital continue to monitor and review key internal control areas where cost effective process changes can be implemented to lower overall risks of errors and irregularities occurring.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue investigating into ways to change our processes with our staff limitations. Due to our facility and department size, it will be a challenge to apply necessary job duties to existing job descriptions without increasing control risks in other parts of the process. We will review and attempt to make changes in a cost-effective manner.

Anticipated completion date

Ongoing

FINDING 2021-004 PAYROLL FLEX BENEFIT ACCOUNT – SIGNIFICANT DEFICIENCY

Effect and recommendation

As in prior years the Hospital has a flex spending cash account that is not currently recorded on the Hospital's general ledger. The auditors suggested management research the origin and historical activity of it to determine what the appropriate accounting treatment should be on an on-going basis.

Views of responsible officials and planned corrective actions

Management agrees with this finding; however, due to the fact the funds are employee-owned, management does not believe the cash account should be a part of the financial position of the hospital. The account is tracked through a payable account and transactions are monitored monthly. Staff will work to review and improve controls where possible.

Anticipated completion date

Ongoing

FINDING 2021-005 ACCOUNTING MANUAL – SIGNIFICANT DEFICIENCY

Effect and recommendation

The Hospital currently does not have any formal documentation of its accounting processes for the various accounting areas. The auditors recommended management prepare a formal accounting manual which should include, among other things, an up-to-date chart of accounts, adequate explanations of account content, and appropriate descriptions of all accounting procedures and routines.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will attempt to begin a formal documentation process to achieve the end goal of a professional manual. Due to our limited staff, this will take place over time.

Anticipated completion date

Ongoing

Section III –Federal Award Findings and Questioned Costs

FINDING 2021-006

Federal program

CFDA Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund

Effect and recommendation

Lost revenues were included as part of the amounts reported in the PRF reporting portal. The auditors discovered a formula error during their review of our calculations. This error resulted in management inadvertently over reporting lost revenues by $628,664. The auditors recommended we contact HRSA and see if the reporting portal could be reopened to resolve the matter.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding. However, management believes it has additional costs that could have been reported to cover the above noted questioned costs. Management will contact HRSA to see if the reporting portal can be reopened for the applicable reporting period to allow this to be corrected and additional costs reported. Additionally, we will continue to refine our processes to ensure lost revenue calculations are appropriately computed for future reporting periods.

Anticipated completion date

Ongoing

FINDING 2021-007

Federal program
CFDA Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund

Effect and recommendation
We inadvertently included certain cost items twice resulting in $36,807 of costs being over reported. The auditors recommended we contact HRSA and see if the reporting portal could be reopened to resolve the matter.

Views of responsible officials and planned corrective actions
Management agrees with the noted finding. However, management believes it has additional costs that could have been reported to cover the above noted questioned costs. Management will contact HRSA to see if the reporting portal can be reopened for the applicable reporting period to allow this to be corrected and additional costs reported. Additionally, we will continue to refine our processes to ensure costs reported are correct for future reporting periods

Anticipated completion date
Ongoing

For any questions regarding this plan, please call Jason Murray at (620)-659-3621, extension 700.

Sincerely,
Edwards Medical Center

Jason Murray
Chief Financial Officer