Independent Auditor's Report and Financial Statements

Goodland Regional Medical Center

December 31, 2022 and 2021

Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20
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*	21
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	23
Schedule of Findings and Questioned Costs	25

Wendling Noe Nelson & Johnson LLC

Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

Adam C. Crouch, CPA · Tyler R. Crow, CPA
Stephanie D. Kennedy, CPA

Independent Auditor's Report

Board of Trustees
Goodland Regional Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Goodland Regional Medical Center (Medical Center), a component unit of Sherman County, Kansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the 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 the business-type activities of the Medical Center as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 and the *Government Auditing Standards* will always detect a material misstatement when it exists.

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

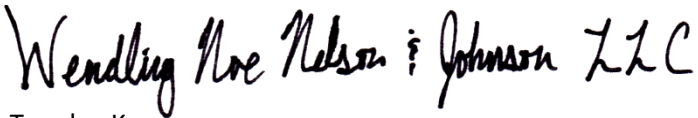
The Medical Center has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 the 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2023, on our consideration of the 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 the 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 the Medical Center's internal control over financial reporting and compliance.



Topeka, Kansas
June 12, 2023

Financial Statements

Goodland Regional Medical Center
Statements of Net Position
December 31, 2022 and 2021

Assets

	2022	2021
Current assets		
Cash and invested cash	$ 11,870,031	$ 16,504,128
Patient accounts receivable, net of allowance for uncollectible accounts of $4,346,784 in 2022 and $3,198,528 in 2021 (Note A5)	2,277,081	2,765,355
Other receivables	325,683	75,543
Estimated third-party payor settlements (Note C)	1,404,826	
Inventories (Note A6)	624,648	619,427
Prepaid expenses	132,048	133,349
Total current assets	16,634,317	20,097,802
Assets limited as to use		
By Board of Trustees (Note D)	670,810	667,753
Capital assets - net (Notes A7 and E)		
Capital assets not being depreciated	325,318	79,640
Depreciable capital assets, net of accumulated depreciation	2,266,969	2,367,654
Leased assets, net of accumulated ammortization	1,215,494	1,165,846
Total capital assets, net	3,807,781	3,613,140
Total assets	$ 21,112,908	$ 24,378,695

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2022	2021
Current liabilities		
Current portion of lease liabilities (Note H)	$ 445,148	$ 354,050
Accounts payable and other accrued expenses	1,107,064	1,139,020
Salaries, wages, and related withholdings payable	521,157	475,541
Accrued compensated absences	371,092	399,938
Medicare and Blue Cross accelerated payments (Note G)		3,491,229
Estimated third-party payors settlements (Note C)	100,000	1,428,071
Total current liabilities	2,544,461	7,287,849
Long-term liabilities		
Lease liabilities, net of current portion (Note H)	1,123,198	1,158,772
Total liabilities	3,667,659	8,446,621
Net position (Note A8)		
Invested in capital assets, net of related debt	2,239,436	2,100,318
Unrestricted	15,205,813	13,831,756
Total net position	17,445,249	15,932,074
Total liabilities and net position	$ 21,112,908	$ 24,378,695

Goodland Regional Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2022 and 2021

	2022	2021
Operating revenues		
Net patient service revenue	$20,271,857	$19,301,980
Other	1,582,056	1,436,085
Total operating revenues	21,853,913	20,738,065
Operating expenses		
Salaries and wages	8,288,300	7,214,104
Employee benefits	1,695,643	1,597,247
Supplies	4,308,547	4,257,735
Purchased services	1,351,940	1,225,042
Professional fees	3,960,863	3,520,158
Lease and rental expense	452,552	317,432
Utilities	266,221	275,964
Insurance	124,825	116,088
Travel	17,260	11,332
Other	225,061	191,883
Depreciation and amortization	787,330	779,095
Total operating expenses	21,478,542	19,506,080
Operating income	375,371	1,231,985
Nonoperating revenues (expenses)		
County appropriations	661,208	689,500
Interest income	42,152	2,164
Interest expense	(35,342)	(29,271)
Gain (loss) on disposal of assets	(47,689)	445
COVID-19 grant revenues	65,424	1,658,758
Noncapital grants and contributions	167,212	53,394
Total nonoperating revenues (expenses)	852,965	2,374,990
Revenues over expenses before capital grants and contributions	1,228,336	3,606,975
Capital grants and contributions	284,839	308,212
Change in net position	1,513,175	3,915,187
Net position at beginning of year	15,932,074	12,016,887
Net position at end of year	$17,445,249	$15,932,074

The accompanying notes are an integral part of these statements.

Goodland Regional Medical Center
Statements of Cash Flows
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 18,027,234	$ 18,922,812
Payments to or on behalf of employees	(9,967,173)	(8,748,776)
Payments to suppliers	(10,968,285)	(10,089,430)
Other receipts and payments	1,582,056	1,436,085
Net cash provided (used) by operating activities	(1,326,168)	1,520,691
Cash flows from noncapital financing activities		
County appropriations	661,208	689,500
Proceeds from CARES Act funding	65,424	782,134
Repayment of Medicare and Blue Cross accelerated payments	(3,491,229)	(1,549,349)
Noncapital grants and contributions	167,212	53,394
Net cash used by noncapital financing activities	(2,597,385)	(24,321)
Cash flows from capital and related financing activities		
Purchase of capital assets	(589,362)	(727,561)
Contributions for purchase of capital assets	284,839	308,212
Proceeds from disposal of capital assets	23,518	445
Principal payments on lease liabilities	(408,292)	(313,892)
Interest paid on lease liabilities	(35,342)	(29,271)
Net cash used by capital and related financing activities	(724,639)	(762,067)
Cash flows from investing activities		
Physician advances paid	(25,000)	
Interest received	42,152	2,164
Net cash provided by investing activities	17,152	2,164
Change in cash and cash equivalents	(4,631,040)	736,467
Cash and cash equivalents at beginning of year	17,171,881	16,435,414
Cash and cash equivalents at end of year	$ 12,540,841	$ 17,171,881

The accompanying notes are an integral part of these statements.

Goodland Regional Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2022 and 2021

	2022	2021
Reconciliation of cash and cash equivalents to the statements of financial position		
Cash and cash equivalents included in current assets	$ 11,870,031	$ 16,504,128
Cash included in assets whose use is limited	670,810	667,753
	$ 12,540,841	$ 17,171,881
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income	$ 375,371	$ 1,231,985
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation and amortization	787,330	779,095
Provision for bad debts	1,344,076	1,330,036
Amortization of student and other loans	13,407	908
Changes in		
Accounts receivable	(1,094,349)	(2,003,530)
Estimated third-party payor settlements	(2,732,897)	318,468
Inventories and prepaid expenses	(3,920)	(43,054)
Accounts payable and accrued expenses	(15,186)	(93,217)
Net cash provided (used) by operating activities	$ (1,326,168)	$ 1,520,691
Supplemental schedule of noncash financing activities		
Lease liabilities incurred	$ 463,816	$ 481,852

The accompanying notes are an integral part of these statements.

Goodland Regional Medical Center
Notes to Financial Statements
December 31, 2022 and 2021

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

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

1. Financial reporting entity

Goodland Regional Medical Center (Medical Center) is located in Goodland, Kansas, and operates a 22-bed hospital. The Medical Center also provides rural health clinic services to the community. The Medical Center is owned by Sherman County, Kansas (County), and is governed by a five-member Board of Trustees appointed by the County Commissioners. The Medical Center is a component unit of the County.

The Northwest Kansas Area Medical Foundation, Inc. (Foundation), is a component unit of the Medical Center. Management has determined that the assets of the Foundation as of December 31, 2022 and 2021, are not material to the financial statements of the Medical Center and, thus, the 2022 and 2021 financial statements do not include the financial data of the Foundation.

2. Basis of accounting

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

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Cash and cash equivalents

The Medical Center considers all highly-liquid investment instruments, including assets whose use is limited, purchased with a maturity of six months or less to be cash and cash equivalents.

5. Patient accounts receivable

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

6. Inventories

Inventories are stated at the lower of cost as determined by the first-in, first-out method or net realizable value.

7. Capital assets

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

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

Leased assets are recognized at the lease commencement date and represent the Medical Center's right to use an underlying asset for the lease term. Leased assets are measured at the initial value of the lease liability at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus any initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method.

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

8. Net position

Net position is classified in two components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and amortization and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt."

9. Operating revenues and expenses

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the Medical Center's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services other than financing costs.

10. Net patient service revenue

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

11. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

12. Grants and contributions

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

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

13. Income taxes

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

14. Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation. The reclassifications had no effect on the changes in financial position.

15. Adoption of accounting pronouncements

As of January 1, 2021, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases*." GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain assets and liabilities for leases that previously were classified as operating leases. The Medical Center's adoption of GASB 87 did not result in changes to amounts reported on the statement of net position or statement of revenues, expenses, and changes in net position, other than presentation for the year ended December 31, 2021.

16. Subsequent events

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

Note B - Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2022 and 2021, was $125,405 and $97,346, respectively. The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Medical Center's cost reports, was $70,000 and $48,000 for 2022 and 2021, respectively.

Note C - Reimbursement Programs

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

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access hospital provisions are primarily based on various cost reimbursement methodologies. Outpatient dialysis and physician services are generally paid at prospectively determined rates. The Medical Center is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center'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 Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2020.

Note C - Reimbursement Programs - Continued

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. The Medical Center also receives disproportionate share hospital payments based on uncompensated care related to Medicaid and uninsured patients. Third-party contractual adjustments include approximately $313,000 and $366,000 of disproportionate share Medicaid payments received by the Medical Center for the years ended December 31, 2022 and 2021, respectively.

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

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

A summary of gross and net patient service revenue follows:

	2022	2021
Gross patient service revenue	$ 37,405,058	$ 39,449,128
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(15,663,720)	(18,719,766)
Provision for bad debts	(1,344,076)	(1,330,036)
Charity care	(125,405)	(97,346)
Net patient service revenue	$ 20,271,857	$ 19,301,980

Note D - Assets Whose Use is Limited by Board of Trustees

Assets whose use is limited by Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets. The funds may be used for other purposes by action of the Board of Trustees.

Note E - Capital Assets

Medical Center capital asset additions, retirements, and balances are as follows:

	2022			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 65,840	$ -	$ -	$ 65,840
Projects in progress	13,800	245,678		259,478
Total capital assets not being depreciated	79,640	245,678	-	325,318
Capital assets being depreciated				
Land improvements	229,158			229,158
Buildings	3,774,584	52,693		3,827,277
Fixed equipment	2,085,489	22,791		2,108,280
Major movable equipment	9,371,356	268,374	265,894	9,373,836
Total capital assets being depreciated	15,460,587	343,858	265,894	15,538,551
Less accumulated depreciation and amortization				
Land improvements	209,326	2,051		211,377
Buildings	3,329,079	38,741		3,367,820
Fixed equipment	1,558,282	76,967		1,635,249
Major movable equipment	7,996,246	257,366	196,476	8,057,136
Total accumulated depreciation and amortization	13,092,933	375,125	196,476	13,271,582
Total capital assets being depreciated, net	2,367,654	(31,267)	69,418	2,266,969
Leased assets				
Major movable equipment	2,455,930	573,641	558,003	2,471,568
Less accumulated amortization	1,290,084	413,459	447,469	1,256,074
Leased assets, net	1,165,846	160,182	110,534	1,215,494
Total capital assets, net	$ 3,613,140	$ 374,593	$ 179,952	$ 3,807,781

Note E - Capital Assets - Continued

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 65,840	$ -	$ -	$ 65,840
Projects in progress	13,211	589		13,800
Total capital assets not being depreciated	79,051	589		79,640
Capital assets being depreciated				
Land improvements	229,158			229,158
Buildings	3,774,584			3,774,584
Fixed equipment	2,092,725	7,400	14,636	2,085,489
Major movable equipment	8,674,664	696,692		9,371,356
Total capital assets being depreciated	14,771,131	704,092	14,636	15,460,587
Less accumulated depreciation and amortization				
Land improvements	207,273	2,053		209,326
Buildings	3,290,894	38,185		3,329,079
Fixed equipment	1,491,636	81,282	14,636	1,558,282
Major movable equipment	7,711,047	285,199		7,996,246
Total accumulated depreciation and amortization	12,700,850	406,719	14,636	13,092,933
Total capital assets being depreciated, net	2,070,281	297,373	-	2,367,654
Leased assets				
Major movable equipment	1,994,690	461,240		2,455,930
Less accumulated amortization	917,707	372,377		1,290,084
Leased assets, net	1,076,983	88,863		1,165,846
Total capital assets, net	$ 3,226,315	$ 386,825	-	$ 3,613,140

Note F - COVID-19 Grant Revenue

COVID-19 grant revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, and subsequent legislation, received from the United States Department of Health and Human Services (HHS) and the Kansas Department of Health and Environment (KDHE). The Medical Center received $65,424 and $782,134 in 2022 and 2021, respectively, through provider relief funds, rural health clinic testing, and SPARK grants. The provider relief funds are to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Medical Center for healthcare related expenses and lost revenues as defined by HHS, that are attributable to

Note F - COVID-19 Grant Revenue - Continued

coronavirus, until such eligibility requirements are met. The rural health clinic testing grants are to be used to support coronavirus testing and related expenses in the rural health clinic. The KDHE funds were used to retain frontline healthcare workers. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as refundable advance liabilities until such time the conditions are met. The Medical Center has determined that the conditions have been met for recognizing revenue of $65,424 and $1,658,758 in 2022 and 2021, respectively, related to these refundable advance liabilities and, therefore, these amounts have been recognized as nonoperating revenues. In addition to the conditional grants received, the Medical Center also received other COVID-19 grant funds from other organizations as reimbursement after incurring the eligible expenses.

The terms and conditions of the programs are complex and subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note G - Medicare and Blue Cross Accelerated Payments

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Medical Center requested and received advances under this program in response to the coronavirus pandemic totaling $5,017,480. Medicare recouped these payments by offsetting claim and settlement payments due to the Medical Center for services rendered to Medicare beneficiaries.

The Medical Center also received advance payments from Blue Cross in May and June of 2020 in the amount of $52,794. The Medical Center paid off this amount in February of 2021.

The following table provides information about significant changes in Medicare and Blue Cross accelerated payments for the years ended December 31:

	2022	2021
Accelerated payments at beginning of year	$ 3,491,229	$ 5,040,578
Accelerated payments recouped or repaid	(3,491,229)	(1,549,349)
Accelerated payments at end of year	$ -	$ 3,491,229

Note H - Lease Liabilities

Lease liabilities are summarized as follows:

	2022	2021
Equipment lease liabilities; implied interest rates ranging from 0.57 - 6.61%; payable in monthly installments ranging from $680 - $22,344 through March 2025 - May 2027	$ 1,568,346	$ 1,512,822
Less current maturities of lease liabilities	(445,148)	(354,050)
Noncurrent portion	$ 1,123,198	$ 1,158,772

Note H - Lease Liabilities - Continued

The following is a summary of changes in lease liabilities:

Outstanding at January 1, 2021	$ 1,344,862
Additions	481,852
Principal payments	(313,892)
Outstanding at December 31, 2021	1,512,822
Additions	463,816
Principal payments	(408,292)
Outstanding at December 31, 2022	$ 1,568,346

Scheduled future lease liability payments are as follows:

	Principal	Interest	Total
2023	$ 445,148	$ 31,805	$ 476,953
2024	455,184	21,769	476,953
2025	459,411	11,422	470,833
2026	172,545	3,520	176,065
2027	36,058	333	36,391
	$ 1,568,346	$ 68,849	$ 1,637,195

Rental expense for all leases consisted of the following:

	2022	2021
Amortization of leased assets	$ 413,459	$ 372,377
Interest on lease liabilities	35,257	29,280
Short-term leases	452,552	317,432
	$ 901,268	$ 719,089

Note I - Risk Management

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. All coverage is on a claims-made basis. The above policies are currently in effect through February 14, 2024. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

Note I - Risk Management - Continued

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

Note J - Deposits with Financial Institutions

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

The carrying amount of the Medical Center's deposits with financial institutions was $12,540,679, and the bank balance was $13,007,395 at December 31, 2022. The bank balance is categorized as follows at December 31, 2022:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	$ 12,787,908
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	219,487
	$ 13,007,395

Note K - Pension Plan

The Medical Center provides pension benefits for certain full-time employees through a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The payroll for employees covered by the plan for 2022 and 2021 was approximately $5,830,000 and $5,306,000, respectively. The total payroll for 2022 and 2021 was approximately $8,288,000 and $7,214,000, respectively.

Employees must be at least 21 years of age to be eligible to participate. All employees must have completed one year of service at the Medical Center to be eligible. The plan provides that the employee contribute 2 percent of the employee's annual salary and the Medical Center contribute 4 percent of the employee's annual salary.

Contributions to the plan made by an employee vest immediately and contributions to the plan made by the Medical Center vest based upon the plan vesting schedule and the employee's years of service with the Medical Center. The contribution for 2022 was approximately $350,000, which consisted of approximately $233,000 from the Medical Center and approximately $117,000 from the employees. These contributions represented 4 percent and 2 percent of covered payroll, respectively. The contribution for 2021 was approximately $316,000, which consisted of approximately $211,000 from the Medical Center and approximately $105,000 from the employees. Contributions to the plan are invested in annuity contracts with an insurance company.

Note L - Employee and Dependent Health Insurance Plan

The Medical Center sponsors an employee benefit plan which provides partially self-insured employee and dependent health insurance benefits for which substantially all full-time employees of the Medical Center are eligible. The Medical Center has agreed to fund the plan for annual costs and expenses of the plan including costs of benefits and insurance premiums and to withhold and remit to the plan any required employee contributions.

The Medical Center has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over $50,000 for each covered individual on an annual basis. The reinsurance arrangement also provides annual aggregate claims coverage for the Medical Center. The Medical Center has appointed an independent third party to provide administrative services to the plan which include review and payment of claims.

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

	2022	2021
Estimated liability for employee health insurance claims at the beginning of the year	$ 105,331	$ 82,082
Provision for Medical Center's share of incurred claims and reinsurance expense for the year, net of any reinsurance proceeds	474,842	489,216
Employee contributions	245,890	225,979
Payments made for claims and related expenses	(719,394)	(691,946)
Estimated liability for employee health insurance claims at the end of the year (included in salaries, wages, and related withholdings payable in the statements of net position)	$ 106,669	$ 105,331

Note M - Related Party Transactions

Sherman County levies and collects property taxes for the benefit of the Medical Center. The Medical Center received $661,208 and $689,500 in tax appropriations from Sherman County in 2022 and 2021, respectively. The Medical Center also received $109,936 and $184,792 in contributions from the Foundation during 2022 and 2021, respectively.

Supplementary Information

Goodland Regional Medical Center
Schedule of Expenditures of Federal Awards
Year ended December 31, 2022

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Amount passed through to subrecipients	Total federal expenditures
United States Department of Health and Human Services				
COVID-19 Provider Relief Fund and American Resuce Plan Rural Distribution	93.498	None	$ -	$ 584,884
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Reimbursement for the Uninsured	93.461	None		85,967
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	None		11,128
COVID-19 Small Hospital Improvement Program	93.301	None		243,235
Total Small Hospital Improvement Program			-	254,363
Total federal awards			$ -	$ 925,214

Goodland Regional Medical Center
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2022

Note 1 - Basis of Presentation

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

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

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

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

Adam C. Crouch, CPA · Tyler R. Crow, CPA
Stephanie D. Kennedy, CPA

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

Board of Trustees
Goodland Regional Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities of Goodland Regional Medical Center (Medical Center), as of and for the years ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated June 12, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

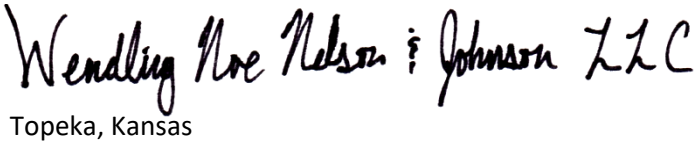
623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

Medical Center's Response to Findings

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

Purpose of This Report

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



Topeka, Kansas
June 12, 2023

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

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

Adam C. Crouch, CPA · Tyler R. Crow, CPA
Stephanie D. Kennedy, CPA

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

Board of Trustees
Goodland Regional Medical Center

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

In our opinion, the 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, 2022.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the Medical Center 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 Medical Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Medical Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Medical Center'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 Medical Center'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 Medical Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
June 12, 2023

Goodland Regional Medical Center
Schedule of Findings and Questioned Costs
Year ended December 31, 2022

Section I - Summary of Auditors' Results

Financial statements

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

Identification of major programs

CFDA Number	Name of Program
93.498	Provider Relief Fund and American Rescue Plan Rural Distribution

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

Section II - Financial Statement Findings

2022-001 Estimated cost report settlements

Identification: Significant deficiency in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, settlements expected for unsettled cost reports reflect management's estimate of such amounts after allowing for possible adjustments by the Medicare administrative contractor.

Condition: The Medical Center is a critical access hospital (CAH) for purposes of the Medicare program. As such, services rendered to Medicare beneficiaries by the Medical Center are paid under cost reimbursement methodologies. The Medical Center is paid at tentative rates during the year with final settlement determined after submission of annual cost reports by the Medical Center.

The laws and regulations that govern the Medicare program are extremely complex, subject to varying interpretations, and constantly changing.

Cause: The Medical Center has estimation procedures in place to estimate year-to-date cost report settlements; however, we proposed an audit adjusting entry to the estimated cost report settlement amounts that decreased net patient service revenue by approximately $620,000. Because of the significance of Medicare cost report reimbursement to the financial statements, and because of the complexity of the laws and regulations governing the Medicare program, as is presently the case for virtually all CAHs, there is more than a remote risk that future financial statements could contain significant misstatements of estimated cost report settlements.

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

Repeat Finding: Repeat Finding of 2021-002

Recommendations: We recommend that the Medical Center continue to use a model to estimate the cost report settlement on a monthly basis and that the model be tested against the submitted Medicare cost report and updated as needed on an annual basis.

Views of Responsible Officials: We will continue to use a model to estimate the cost report settlement. Our goal is to use the model to make adjustments to estimated third-party payor settlements. In addition, it is our goal to have the model tested against the most recently submitted Medicare cost report on an annual basis.