Independent Auditor's Report and Financial Statements

Labette County Medical Center
d/b/a Labette Health

December 31, 2021 and 2020

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Labette County Medical Center
d/b/a Labette Health
Management's Discussion and Analysis
Years ended December 31, 2021 and 2020

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health and our blended component unit, Labette Health Endowment Association (LHEA), provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2021 and 2020. Please read it in conjunction with the accompanying financial statements.

Financial highlights

Labette Health's net position increased by $11,588,866 or 25.3 percent in and increased by $2,783,959 or 6.5 percent in 2020.

Labette Health reported an operating loss of $2,512,697 and $1,271,933 in 2021 and 2020, respectively, and operating income of $1,553,442 in 2019.

Using these financial statements

Labette Health's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

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

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

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

Assets, liabilities, and net position

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

	2021	2020	2019
Assets			
Current assets	$ 44,472,782	$ 42,015,052	$ 27,571,231
Assets limited as to use	16,669,761	27,252,740	19,855,496
Capital assets, net	44,395,985	31,432,075	26,568,074
Other assets	11,261,134	11,087,603	756,521
Total assets	116,799,662	111,787,470	74,751,322
Deferred outflows of resources	264,523	298,389	333,901
Liabilities			
Current liabilities	(19,470,210)	(26,133,438)	(9,778,901)
Long-term liabilities	(40,150,802)	(40,098,114)	(22,235,974)
Total liabilities	(59,621,012)	(66,231,552)	(32,014,875)
Net position	$ 57,443,173	$ 45,854,307	$ 43,070,348

Cash and cash equivalents in the current asset category increased by $5,287,595 and $8,397,066 in 2021 and 2020, respectively.

Beginning in March 2020, Labette Health, along with all health care providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for Labette Health's services were significantly impacted. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation has provided funding during these uncertain times. Labette Health was approved for a Patient Protection Program (PPP) loan, received several grants to prevent, prepare for, and respond to coronavirus, and deferred the employer portion of social security tax.

Net patient accounts receivable increased by $1,817,865 and $1,458,276 in 2021 and 2020, respectively. The number of days of net revenue represented by net accounts receivable was 56 days, 52 days, and 45 days as of December 31, 2021, 2020, and 2019, respectively.

Net capital assets increased by $12,963,910 and $4,864,001 in 2021 and 2020, respectively. Cash outlays for capital asset acquisitions totaled $18,255,320 during 2021, of which approximately $12,300,000 (67.4 percent) was financed with proceeds from bonds or notes payable or capital lease obligations, approximately $4,700,000 from Medical Center cash set aside under bond indenture requirements, and the rest was paid for from operating cash flow. Cash outlays for capital asset acquisitions totaled approximately $7,561,584 during 2020, of which $5,945,731 (78.6 percent) was financed with note payable proceeds and capital lease obligations and the rest was paid for from operating cash flow.

Labette Health issued bonds in 2021 in the principal amount of $9,918,000 for the refunding of the 2016 bonds and for the renovation and expansion of Labette Health's facilities.

In 2020, Labette Health issued bonds in the principal amount not to exceed $10,000,000 and LHEA entered into loan agreements for $13,580,000 for renovation and expansion of Labette Health's facilities. In connection with the loan agreement, Labette Health entered into a leverage loan agreement in the amount of $9,959,600. At December 31, 2021, Labette Health has outstanding commitments of approximately $4,050,000 for renovation, expansion, and equipment.

Labette Health's net position increased by $11,588,866 or 25.3 percent in 2021 and increased by $2,783,959 or 6.5 percent in 2020. The percentage of total assets financed with net position, or equity, was 49.1 percent, 40.9 percent, and 57.4 percent as of December 31, 2021, 2020, and 2019, respectively.

Operating results and changes in net position

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

	2021	2020	2019
Operating revenues	$ 85,497,462	$ 81,582,260	$ 79,632,294
Operating expenses	88,010,159	82,854,193	78,078,852
Operating income (loss)	(2,512,697)	(1,271,933)	1,553,442
Ambulance subsidy and sales tax revenue	798,083	735,368	676,165
Interest expense	(1,374,592)	(1,933,708)	(927,859)
COVID-19 grants, total	10,980,201	3,762,899	
Other nonoperating revenues	3,257,323	595,608	744,406
Other capital revenues	440,548	895,725	809,491
Change in net position	$ 11,588,866	$ 2,783,959	$ 2,855,645

The first, and most significant, component of the overall change in Labette Health's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health's operating loss increased by $1,240,764 in 2021 and increased by $2,825,375 in 2020.

Gross and net patient service revenue for the past three years are analyzed as follows:

	2021	2020	2019
Inpatient services	$ 34,854,735	$ 34,047,160	$ 48,671,797
Outpatient services	174,483,791	151,142,302	144,692,755
Physician services	30,366,376	27,353,611	27,227,731
Gross patient service revenue	239,704,902	212,543,073	220,592,283
Contractual adjustments	(147,505,225)	(129,053,751)	(138,113,895)
Provision for bad debts	(12,933,537)	(11,051,885)	(10,676,387)
Charity care	(1,296,002)	(778,437)	(1,917,642)
Net patient service revenue	$ 77,970,138	$ 71,659,000	$ 69,884,359

Labette Health did not adjust charge rates during 2021 or 2020. Total inpatient revenues increased by 2.4 percent during 2021. The increase was a result of a 9.5 percent increase in acute and ICU patient days, a 13.6 percent decrease in rehabilitation unit patient days, and a 3.9 percent decrease in nursery patients in 2021. Total inpatient revenues decreased by 30.1 percent during 2020. This decrease was a result of a 5.3 percent decrease in acute and ICU patient days, a 7.2 percent decrease in rehabilitation unit patient days, and a 15.4 percent decrease in nursery patient days in 2020. The decrease in inpatient revenues was also impacted by knee replacement surgeries changing from an inpatient service to an observation (outpatient) service in 2020, which factored into the increase in outpatient revenues in 2020.

Outpatient revenues increased by 15.4 and 4.5 percent during 2021 and 2020, respectively, due to changes in outpatient registrations and charge mix. Physician revenues increased by 11 percent due to an increase in the number of visits.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors.

The provision for bad debts and charity care write-offs combined represent 5.9 percent, 5.6 percent, and 5.7 percent of gross patient service revenue during 2021, 2020, and 2019, respectively.

Employee salaries and wages increased by $3,127,731 or 8.3 percent during 2021 and increased by $2,383,939 or 6.7 percent during 2020. The number of full-time equivalent employees increased by 27 (4.6 percent) during 2021 and increased by 15 (2.6 percent) during 2020.

The cost of employee benefits equaled 17.3 percent, 15.8 percent, and 15.6 percent of salaries and wages during 2021, 2020, and 2019, respectively. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased 6.9 percent during 2021 and increased by 5.8 percent during 2020. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service. Nonoperating revenues also include SBA loan forgiveness of $1,977,228 and $5,828,957 of COVID-19 grants recognized in 2021 and $2,120,342 of COVID-19 grants recognized in 2020. Capital grants include $5,151,244 and $1,642,557 of COVID-19 grants recognized for capital purchases in 2021 and 2020, respectively.

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

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented components units of Labette County Medical Center d/b/a Labette Health, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Labette Health's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards.* We are required to be independent of Labette Health 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 opinions.

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 Labette Health'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 opinions. 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 Kansas Municipal Audit and Accounting Guide will

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Labette Health'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 Labette Health's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Labette Health's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures

in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, on our consideration of Labette Health'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 Labette Health'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 Labette Health's internal control over financial reporting and compliance.

Wendling Noe Nelson : Johnsen LLC

Topeka, Kansas
October 25, 2022

Financial Statements

Labette County Medical Center
d/b/a Labette Health
Statements of Net Position
December 31,

Assets and Deferred Outflows of Resources

	2021		2020	
	Labette Health	Component units	Labette Health	Component units
Current assets				
Cash and cash equivalents	$ 28,713,313	$ 2,671	$ 23,425,718	$ 77,954
Investments		233,385		384,147
Assets limited as to use	223,284		3,572,598	
Patient accounts receivable, net of allowance for uncollectible accounts of $4,465,820 in 2021 and $4,460,635 in 2020	11,960,536		10,142,671	
Other receivables	897,163	18,080	1,350,371	22,991
Estimated third-party payor settlements	60,000		565,000	
Inventories	2,146,911		2,060,823	
Prepaid expenses	471,575		897,871	
Total current assets	44,472,782	254,136	42,015,052	485,092
Assets limited as to use				
Internally designated for capital assets	12,473,840	298,700	10,222,695	
Under indenture agreement - held by trustee	2,229,809		254,363	
By County for capital assets	1,345,546		1,257,195	
By contributors for capital assets	573,550		498,950	
Under indenture or loan agreement				
For debt service		106,591		80,948
For capital assets			18,321,835	
For specific operating activities	270,300		270,300	
By contributors for specific operating activities		3,808,389		2,594,114
	16,893,045	4,213,680	30,825,338	2,675,062
Less amounts required to meet current obligations	223,284		3,572,598	
	16,669,761	4,213,680	27,252,740	2,675,062
Capital assets, net	44,395,985	4,764,729	31,432,075	5,177,014
Other assets				
Leverage loan receivable	9,959,600		9,959,600	
Advances receivable	1,301,534		1,128,003	
Other		141,299		117,784
	11,261,134	141,299	11,087,603	117,784
Total assets	116,799,662	9,373,844	111,787,470	8,454,952
Deferred outflows of resources				
Deferred outflows on advance refunding	264,523		298,389	
Total deferred outflows of resources	264,523	-	298,389	-
Total assets and deferred outflows of resources	$ 117,064,185	$ 9,373,844	$ 112,085,859	$ 8,454,952

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2021		2020	
	Labette Health	Component units	Labette Health	Component units
Current liabilities				
Current maturities of long-term obligations	$ 3,536,142	$ 121,947	$ 2,493,302	$ 119,027
Current portion of SBA PPP loan			847,334	
Accounts payable	5,718,759		6,885,990	
Construction costs payable	1,192,611		1,816,072	
Due to Labette Health		172,348		226,068
Accrued salaries, wages, and benefits	2,985,546		2,369,095	
Accrued compensated absences	1,567,235		1,472,711	
Accrued interest payable	108,147		69,608	
Accrued health insurance claims	260,030		196,197	
Unearned COVID-19 grant revenue	4,058,878		9,948,154	
Other current liabilities	42,862		34,975	
Total current liabilities	19,470,210	294,295	26,133,438	345,095
Accrued payroll taxes, net of current portion			708,222	
SBA PPP loan payable, less current portion			1,129,894	
Long-term obligations, less current maturities	40,150,802	5,401,010	38,259,998	5,522,957
Total liabilities	59,621,012	5,695,305	66,231,552	5,868,052
Net position				
Net investment in capital assets	7,432,698	(902,604)	3,325,795	(660,959)
Restricted				
For debt service	270,300	106,591	270,300	80,948
Expendable for capital acquisitions	1,919,096		1,756,145	
Expendable for specific operating activities		3,808,389		2,594,114
Unrestricted	47,821,079	666,163	40,502,067	572,797
Total net position	57,443,173	3,678,539	45,854,307	2,586,900
Total liabilities and net position	$ 117,064,185	$ 9,373,844	$ 112,085,859	$ 8,454,952

Labette County Medical Center
d/b/a Labette Health
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31,

	2021		2020	
	Labette Health	Component units	Labette Health	Component units
Operating revenues				
Net patient service revenue	$ 77,970,138	$ -	$ 71,659,000	$ -
Other	7,527,324	2,353,263	9,923,260	2,812,655
Total operating revenues	85,497,462	2,353,263	81,582,260	2,812,655
Operating expenses				
Salaries and wages	40,876,391		37,748,660	
Employee benefits	7,074,529		5,971,384	
Supplies and other	36,848,779	778,948	34,475,126	695,605
Depreciation and amortization	3,210,460	412,285	4,659,023	423,525
Total operating expenses	88,010,159	1,191,233	82,854,193	1,119,130
Operating income (loss)	(2,512,697)	1,162,030	(1,271,933)	1,693,525
Nonoperating revenues (expenses)				
Ambulance subsidy	695,937		568,340	
Investment income	211,715	42,091	341,344	44,532
Interest expense	(1,374,592)	(135,997)	(1,933,708)	(139,227)
Noncapital grant and contributions	994,597		466,924	
COVID-19 grants	5,828,957		2,120,342	
SBA PPP loan forgiveness	1,977,228			
Other	73,783	23,515	(212,660)	(38,638)
Total nonoperating revenues (expenses)	8,407,625	(70,391)	1,350,582	(133,333)
Excess of revenues over expenses, before grants, contributions, and sales tax revenue restricted for capital purposes	5,894,928	1,091,639	78,649	1,560,192
Capital grants and contributions	440,548		895,725	
COVID-19 grants used for capital purchases	5,151,244		1,642,557	
Sales tax revenue restricted for capital purchases	102,146		167,028	
Change in net position	11,588,866	1,091,639	2,783,959	1,560,192
Net position at beginning of year	45,854,307	2,586,900	43,070,348	1,026,708
	$ 57,443,173	$ 3,678,539	$ 45,854,307	$ 2,586,900

The accompanying notes are an integral part of these statements.

Labette County Medical Center
d/b/a Labette Health
Statements of Cash Flows
Year ended December 31,

	2021		2020	
	Labette Health	Component units	Labette Health	Component units
Cash flows from operating activities				
Receipts from and on behalf of patients	$ 76,657,273	$ -	$ 69,707,505	$ -
Payments to or on behalf of employees	(47,884,334)		(41,913,379)	
Payments for supplies and services	(38,015,857)	(832,668)	(33,276,724)	(743,191)
Other receipts and payments	9,605,131	2,355,683	9,709,494	1,726,979
Net cash provided by operating activities	362,213	1,523,015	4,226,896	983,788
Cash flows from noncapital financing activities				
Ambulance subsidy	681,011		559,516	
Proceeds from SBA PPP loan payable			6,118,700	
Payments on SBA PPP loan payable			(4,141,472)	
COVID-19 grants received	1,731,437		12,068,496	
Noncapital grants and contributions	1,000,508		233,240	
Net cash provided by noncapital financing activities	3,412,956	-	14,838,480	-
Cash flows from capital and related financing activities				
Acquisition of capital assets	(18,255,320)		(7,561,584)	
Capital lease obligations incurred			1,660,000	
Proceeds from bond issuance	12,114,660		174,000	
Proceeds from notes payable	897,983		16,792,871	
Payment of bond and notes payable issuance costs	(176,680)		(943,720)	
Principal payments on long-term obligations	(2,348,999)	(119,027)	(2,102,274)	(115,797)
Payment to extinguish debt	(7,730,000)			
Interest paid	(1,125,507)	(135,997)	(957,586)	(139,227)
Capital grants and contributions	442,742		893,911	
COVID-19 capital grants received	3,359,488		1,642,557	
Proceeds from sale of capital assets	93,421		1,959	
Sales tax revenue restricted for capital purchases	102,146		167,028	
Net cash provided (used) by capital and related financing activities	(12,626,066)	(255,024)	9,767,162	(255,024)
Cash flows from investing activities				
Changes in				
Assets held by trustee	(1,975,446)		(99,375)	
Investments		(224,582)		(7,867)
Payment of leverage loan receivable			(9,959,600)	
Investment income received	228,540	36,848	473,200	7,959
Net cash provided (used) by investing activities	(1,746,906)	(187,734)	(9,585,775)	92
Net change in cash and cash equivalents	(10,597,803)	1,080,257	19,246,763	728,856
Cash and cash equivalents at beginning of year	53,965,838	1,569,320	34,719,075	840,464
Cash and cash equivalents at end of year	$ 43,368,035	$ 2,649,577	$ 53,965,838	$ 1,569,320

Labette County Medical Center
d/b/a Labette Health
Statements of Cash Flows - Continued
Year ended December 31,

	2021		2020	
	Labette Health	Component units	Labette Health	Component units
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ 28,713,313	$ 2,671	$ 23,425,718	$ 77,954
Cash included in assets limited as to use				
Internally designated for capital assets	12,465,326	298,700	10,191,840	
By County for capital assets	1,345,546		1,257,195	
By contributors for capital assets	573,550		498,950	
Under indenture or loan agreement	270,300	106,591	18,592,135	80,948
For specific operating activities		2,241,615		1,410,418
Total cash and cash equivalents	$ 43,368,035	$ 2,649,577	$ 53,965,838	$ 1,569,320
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ (2,512,697)	$ 1,162,030	$ (1,271,933)	$ 1,693,525
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	3,210,460	412,285	4,659,023	423,525
Provision for bad debts	12,933,537		11,051,885	
Changes in				
Patient accounts receivable	(14,751,402)		(12,510,161)	
Other receivables	2,077,807		(213,766)	
Pledges receivable		2,420		(1,085,676)
Advances receivable	(173,531)		(431,482)	
Estimated third-party payor settlements	505,000		(493,219)	
Inventories	(86,088)		(389,745)	
Prepaid expenses	426,296		(352,002)	
Accounts payable and accrued expenses	(1,267,169)	(53,720)	4,178,296	(47,586)
Net cash provided by operating activities	$ 362,213	$ 1,523,015	$ 4,226,896	$ 983,788

The accompanying notes are an integral part of these statements.

Labette County Medical Center
d/b/a Labette Health
Notes to Financial Statements
December 31, 2021 and 2020

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

The financial statements of Labette County Medical Center d/b/a Labette Health, a component unit of Labette 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 account and financial reporting principles. The significant accounting and reporting policies and practices used by Labette Health are described below.

1. Reporting entity

Labette Health is owned by Labette County, Kansas (the County), and governed by a nine-member Board of Trustees appointed by the Board of County Commissioners of the County. Labette Health is a not-for-profit general hospital located in Parsons, Kansas. Labette Health can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. Labette Health is a component unit of the County.

Labette Health Endowment Association (LHEA) is a 501(c)(3) nonprofit corporation. Labette Health's management performs the day-to-day management of LHEA's operations and the debt of LHEA is expected to be repaid entirely with the resources of Labette Health through lease payments made to LHEA for the use of certain hospital space. LHEA is a separate legal entity but is financially integrated with Labette Health and is reported as a blended component unit of Labette Health and does not issue separate financial statements. The sole corporate member of LHEA is Labette Health. All significant intercompany accounts have been eliminated in the accompanying financial statements.

For financial reporting purposes, Labette Health has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with Labette Health are such that the exclusion would cause Labette Health'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 Labette Health 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 Labette Health.

The component units discussed in Note A2 are included in Labette Health's reporting entity because of the nature and significance of their relationships with Labette Health.

2. Discretely presented component units

The financial statements include the financial data of the aggregate discretely presented component units described below. The component units are reported separately to emphasize that they are legally separate from Labette Health.

Labette Health Foundation, Inc. (the Foundation), is a not-for-profit corporation formed to receive, invest, and disburse funds received for the benefit, support, and maintenance of Labette Health. The Foundation is a legally separate component unit of Labette Health. The Foundation is administered by a Board of Directors, of which four members are appointed by Labette Health's Board of Trustees. Although Labette Health does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of Labette Health by the donors or are provided to Labette Health for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, Labette Health and for the benefit of patients served by Labette Health, the Foundation is considered a component unit of Labette Health and is discretely presented in Labette Health's financial statements.

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

Labette Health Regional Partnerships, Inc. (LHRP), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. LHRP is administered by a five-member Board of Directors of which three members are appointed by Labette Health's Board of Trustees. Because of Labette Health's ability to appoint the majority of LHRP's Board of Directors, LHRP is considered a component unit of Labette Health and is discretely presented in Labette Health's financial statements.

Southeast Kansas Regional Health, Inc. (SEKRH), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Montgomery County, Neosho County, and Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. SEKRH is administered by a ten-member Board of Directors of which five members are appointed by Labette Health's Board of Trustees. Because Labette Health appoints fifty percent of the governing board, SEKRH is considered a component unit of Labette Health and is discretely presented in Labette Health's financial statements.

The Foundation, LHRP, and SEKRH are not-for-profit organizations that report under the Financial Accounting Standards Board (FASB) standards, including Topic 958. As such certain revenue recognition criteria and presentation are different from GASB revenue recognition criteria and presentation. Modifications have been made to the Foundation, LHRP, and SEKRH's financial information in the reporting entity for these differences.

3. Use of estimates

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

4. Basis of accounting

Labette Health and its component units use enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Labette Health and its component units consider all cash and invested cash to be cash equivalents, excluding any assets limited as to use under bond indenture agreements held by a trustee and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

Labette Health provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Labette Health estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the average cost method.

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

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; assets restricted by the County for capital asset acquisitions; assets restricted as to use by loan agreements; and assets restricted by contributors for capital acquisition or a particular purpose. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. Prior to January 1, 2021, these estimated lives were substantially in conformity with the guidelines established by the American Hospital Association. Effective January 1, 2021, the Medical Center changed its estimate of useful lives of capital assets to be based on a third-party review of Medical Center capital assets. A guide prepared by the third party was used to reassign useful lives of existing capital assets and for setting useful lives for capital assets placed into service on or after January 1, 2021. The change in estimate resulted in a decrease in depreciation expense of approximately $1,500,000 for the year ended December 31, 2021.

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.

11. Costs of borrowing

Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the interest method over the term of the related debt. Other costs incurred to issue long-term debt are expensed in the period incurred.

12. Grants and contributions

From time to time, Labette Health and its component units receive grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for 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 and expenses.

13. Restricted resources

When Labette Health and its component units have both restricted and unrestricted resources available to finance a particular program, their policy is to use restricted resources before unrestricted resources.

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

14. Accrued health insurance claims

Labette Health is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for accrued health insurance claims are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

15. Deferred outflows of resources

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

16. Net position

Net position of Labette Health and its component units is classified in three components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Labette Health and its component units, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

17. Operating revenues and expenses

Labette Health's statement of revenues, expenses, and changes in net position and those of its component units, distinguish between operating and nonoperating revenues and expenses and those of its component units. Operating revenues result from exchange transactions associated with providing health care services, which is Labette Health's principal activity. Nonexchange revenues, including noncapital grants and contributions and the noncapital ambulance subsidy, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

18. Net patient service revenue

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

19. Charity care

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

20. Income taxes

Labette Health is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

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

LHEA is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. LHEA is considered a qualified active low-income community business.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

LHRP is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

SEKRH is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

Management is not aware of any uncertainties in income tax positions. Tax years ending on or before December 31, 2017, are not subject to examination by taxing authorities.

21. Subsequent events

Labette Health and its component units have evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued. See Note W for subsequent events identified.

Note B - Net Patient Service Revenue

Labette Health has agreements with third-party payors that provide for payments to it 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 - Inpatient acute and rehabilitation care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per occasion of service. Physician services, other than rural health clinic (RHC) services, rendered to Medicare program beneficiaries are paid based on a prospectively determined fee schedule. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. RHC physician services are paid based on cost reimbursement methodologies. Labette Health is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by Labette Health and audits or reviews thereof by the Medicare administrative contractor. Labette Health'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. Labette Health's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2018.

Labette Health is classified as a sole community hospital (SCH) under the Medicare program. As a result, its inpatient operating diagnosis related group (DRG) payments are based on its hospital-specific operating DRG rate which is higher than the federal operating DRG rate upon which those payments would be based if Labette Health did not have SCH status. Labette Health is also qualified under the Medicare program to receive low-volume add-on payments for inpatient services.

Note B - Net Patient Service Revenue - Continued

Medicaid - Inpatient acute and rehabilitation care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on a fee-for-service basis.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the provider, and other factors. Labette Health qualified for these disproportionate share payments during both 2021 and 2020.

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.

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

A summary of gross and net patient service revenue follows:

	2021	2020
Gross patient service revenue	$239,704,902	$212,543,073
Contractual adjustments	(147,505,225)	(129,053,751)
Provision for bad debts	(12,933,537)	(11,051,885)
Charity care	(1,296,002)	(778,437)
Net patient service revenue	$ 77,970,138	$ 71,659,000

Revenue from the Medicare and Medicaid programs accounted for approximately 30 percent and 6 percent, respectively, of Labette Health's net patient service revenue during 2021, and 32 percent and 5 percent, respectively, of Labette Health's net patient service revenue during 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note C - Deposits with Financial Institutions

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

Kansas statutes authorize Labette Health with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of Labette Health.

Note C - Deposits with Financial Institutions - Continued

At December 31, 2021, the carrying amount of Labette Health's bank deposits, including certificates of deposit, was $43,097,335 and the bank balances were $43,943,120. Of the bank balances, $9,705,072 was covered by federal depository insurance, $33,634,273 was covered by collateral held by third-party banks, but not registered in Labette Health's name, and $603,775 was unsecured and uncollateralized.

At December 31, 2021, the carrying amount and balances of LHEA's bank deposits, was $270,300. Of the bank balances, $250,000 was covered by federal depository insurance and $20,300 was unsecured and uncollateralized.

At December 31, 2021, the carrying amount of the Foundation's bank deposits was $2,646,905 and the bank balances were $2,647,356. Of the bank balances, $750,000 was covered by federal depository issurance, $50,000 was covered by collateral held by third-party banks, and $1,847,356 was unsecured and uncollateralized.

Note D - Assets Limited as to Use

The composition of Labette Health's assets limited as to use is as follows:

	2021	2020
Internally designated for capital assets		
Cash	$ 3,229,724	$ 88,621
Certificates of deposit	9,235,602	10,103,219
Accrued interest receivable	8,514	30,855
	$ 12,473,840	$ 10,222,695
Under indenture agreement - held by trustee		
Cash and money market funds	$ 2,229,809	$ 254,363
By County for capital assets		
Cash	$ 1,345,546	$ 1,257,195
By contributors for capital assets		
Cash	$ 573,550	$ 498,950
Under indenture or loan agreement		
Cash	$ 270,300	$ 18,592,135

Note D - Assets Limited as to Use - Continued

The composition of the discretely presented component units' assets limited as to use is as follows:

	2021	2020
Internally designated for capital assets		
Cash	$ 298,700	$ -
Under loan agreement		
Cash	$ 106,591	$ 80,948
By contributors for specific operating activities		
Cash	$ 1,950,664	$ 1,120,101
Certificates of deposit	290,951	290,317
Money market funds	173,999	
Equity mutual funds	78,676	
Fixed income mutual funds	127,912	
Pledges receivable	1,186,187	1,183,696
	$ 3,808,389	$ 2,594,114

Note E - Investments

The discretely presented component units' investments are stated at fair value. The composition of their investments is as follows:

	2021	2020
Money market funds	$ -	$ 7,253
Common stocks	69,711	62,914
Equity mutual funds	163,674	182,996
Fixed income mutual funds		130,984
	$ 233,385	$ 384,147

Note F - Fair Value of Financial Instruments

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

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

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

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

Note F - Fair Value of Financial Instruments - Continued

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

Mutual funds and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

The following tables set forth, by level, the discretely presented component units' assets measured at fair value on a recurring basis:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Common stock	$ 69,711	$ -	$ -	$ 69,711
Mutual funds	370,262			370,262
	$ 439,973	$ -	$ -	$ 439,973

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Common stock	$ 62,914	$ -	$ -	$ 62,914
Mutual funds	313,980			313,980
	$ 376,894	$ -	$ -	$ 376,894

Note G - Capital Asset

Capital asset additions, retirements, and balances for Labette Health are as follows:

	2021			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Buildings	$ 57,305,994	$ 20,095	$ 2,890,140	$ 60,216,229
Fixed equipment	10,416,602	14,209	3,522,188	13,952,999
Major movable equipment	24,391,786	1,642,836	(422,641)	25,611,981
Total capital assets being depreciated	92,114,382	1,677,140	5,989,687	99,781,209
Less accumulated depreciation and amortization				
Buildings	42,025,700	1,306,916		43,332,616
Fixed equipment	8,764,341	279,377		9,043,718
Major movable equipment	16,637,855	1,624,167	(1,420,638)	16,841,384
Total accumulated depreciation and amortization	67,427,896	3,210,460	(1,420,638)	69,217,718
Total capital assets being depreciated, net	24,686,486	(1,533,320)	7,410,325	30,563,491
Land	854,786		95,022	949,808
Construction in progress	5,890,802	14,516,869	(7,524,985)	12,882,686
Total capital assets not being depreciated	6,745,588	14,516,869	(7,429,963)	13,832,494
Capital assets, net	$ 31,432,074	$ 12,983,549	$ (19,638)	$ 44,395,985

	2020			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Buildings	$ 56,971,118	$ 9,465	$ 325,411	$ 57,305,994
Fixed equipment	10,246,468	16,827	153,307	10,416,602
Major movable equipment	23,300,522	2,865,055	(1,773,791)	24,391,786
Total capital assets being depreciated	90,518,108	2,891,347	(1,295,073)	92,114,382
Less accumulated depreciation and amortization				
Buildings	39,752,643	2,273,057		42,025,700
Fixed equipment	8,527,760	236,581		8,764,341
Major movable equipment	16,906,505	2,149,385	(2,418,035)	16,637,855
Total accumulated depreciation and amortization	65,186,908	4,659,023	(2,418,035)	67,427,896
Total capital assets being depreciated, net	25,331,200	(1,767,676)	1,122,962	24,686,486
Land	854,786			854,786
Construction in progress	382,088	6,846,295	(1,337,581)	5,890,802
Total capital assets not being depreciated	1,236,874	6,846,295	(1,337,581)	6,745,588
Capital assets, net	$ 26,568,074	$ 5,078,619	$ (214,619)	$ 31,432,074

Note G - Capital Assets - Continued

Construction in progress for Labette Health at December 31, 2021, consists primarily of costs incurred for an addition and various renovations to Labette Health's facilities and equipment purchased but not yet placed in service. At December 31, 2021, Labette Health's outstanding commitments for these projects were approximately $4,050,000.

Capital asset additions, retirements, and balances for the discretely presented component units are as follows:

	2021			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Land improvements	$ 985,822	$ -	$ -	$ 985,822
Buildings	4,329,411			4,329,411
Fixed equipment	1,045,260			1,045,260
Total capital assets being depreciated	6,360,493	-	-	6,360,493
Less accumulated depreciation and amortization				
Land improvements	222,613	63,965		286,578
Buildings	1,065,587	276,697		1,342,284
Fixed equipment	248,111	71,623		319,734
Total accumulated depreciation and amortization	1,536,311	412,285	-	1,948,596
Total capital assets being depreciated, net	4,824,182	(412,285)	-	4,411,897
Land, nondepreciable	352,832			352,832
Capital assets, net	$ 5,177,014	$ (412,285)	$ -	$ 4,764,729

	2020			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Land improvements	$ 985,822	$ -	$ -	$ 985,822
Buildings	4,329,411			4,329,411
Fixed equipment	1,045,260			1,045,260
Total capital assets being depreciated	6,360,493	-	-	6,360,493
Less accumulated depreciation and amortization				
Land improvements	158,648	63,965		222,613
Buildings	777,650	287,937		1,065,587
Fixed equipment	176,488	71,623		248,111
Total accumulated depreciation and amortization	1,112,786	423,525	-	1,536,311
Total capital assets being depreciated, net	5,247,707	(423,525)	-	4,824,182
Land, nondepreciable	352,832			352,832
Capital assets, net	$ 5,600,539	$ (423,525)	$ -	$ 5,177,014

Note H - Leverage Loan Receivable

Labette Health entered into an agreement on November 13, 2020, to lend $9,959,600 to Labette Health Investment Fund, LLC. Interest of 1 percent accrues on the loan receivable balance from the date of the issuance through maturity, with interest only payments beginning March 1, 2021, and paid quarterly through December 31, 2027. Beginning on March 1, 2028, and continuing until the maturity date of March 31, 2045, the Labette Investment Fund will make quarterly payments of principal and interest sufficient to amortize the note by the maturity date. The note is secured by equity interests of 99.99 percent of CHHS Subsidiary CDE 47, LLC.

Note I - Advances Receivable

Labette Health has determined that recruitment of physicians to serve the residents of Labette County and the retention of key employees is in the best interest of Labette Health, its patients, and the community, and will enable Labette Health to enhance its ability to meet the health care needs of the community's residents. To accomplish this, Labette Health has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in Labette Health's service area. In return, the physicians agree to provide professional services for the residents of Parsons and Labette County over periods varying from three to six years. Labette Health has also entered into an agreement to retain the services of a key employee. The financial assistance is rendered in the form of contractual liquidated damages clauses which require liquidated damages to be paid to Labette Health if the service obligation is not met. Upon establishment of their practices, or retention period, principal or liquidated damages and the accumulated interest on loans are forgiven ratably over the required service periods. If the physicians do not establish a medical practice, or if they leave the community prior to completion of the service obligation or the key employee does not complete the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, as applicable.

Labette Health's future exposure to credit loss on these agreements is dependent upon the performance of the physicians and the key employee under these agreements. Outstanding commitments for future advances were approximately $546,000 at December 31, 2021.

Note J - Health Insurance Claims

Labette Health sponsors a self-insured employee health insurance plan. Labette Health has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over $100,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Labette Health has retained an agent to process and settle claims.

Note J - Health Insurance Claims - Continued

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

	2021	2020
Estimated net health insurance claims payable at beginning of year	$ 196,197	$ 189,883
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,812,567	2,186,840
Participant contributions	1,297,593	1,247,045
Payments made for claims and related expenses	(4,046,327)	(3,427,571)
Estimated net health insurance claims payable at end of year	$ 260,030	$ 196,197

Note K - Unearned COVID-19 Revenue

During the years ended December 31, 2021 and 2020, Labette Health received federal grants through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act and subsequent legislation. Labette Health received the United States Department of Health and Human Services (HHS) provider relief funds to be used to prevent, prepare for, and respond to coronavirus and to reimburse Labette Health for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus (COVID-19). Labette Health also received HHS rural health clinic testing funds to be used to support coronavirus testing and related expenses in the rural health clinics, and Coronavirus Relief Funds administered by the State of Kansas SPARK (Strengthening People and Revitalizing Kansas) program to respond to coronavirus. As a condition to receiving these distributions, Labette Health must agree to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned revenues until such time the eligibility requirements have been met.

Labette Health has determined that the eligibility requirements for lost revenues and allowable expenditures have been met for $10,204,764 and $3,495,554 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2021 and 2020, respectively. These amounts have, therefore, been recognized as nonoperating revenues and grants used for capital purchases in the financial statements along with several other COVID-19 grants received during the years ended December 31, 2021 and 2020. The terms and conditions of the programs are complex and are 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.

The following tables provide information about significant changes in unearned COVID-19 revenue for the years ended December 31:

	2021	2020
Unearned COVID-19 revenues at beginning of year	$ 9,948,154	$ -
HHS Provider relief funds received	3,315,488	11,342,594
HHS rural health clinic testing funds received	1,000,000	494,614
SPARK funds received		1,606,500
Recognized as income	(10,204,764)	(3,495,554)
Unearned COVID-19 revenues at end of year	$ 4,058,878	$ 9,948,154

Note L - SBA PPP Loan Payable

The SBA PPP loan payable as of December 31, 2021 and 2020, is summarized as follows:

	2021	2020
Small Business Administration (SBA) Paycheck Protection Program Loan dated May 01, 2020, in the original amount of $6,118,700, 24-month term, current rate 1.00%, subject to SBA loan forgiveness application, uncollateralized. Forgiven by the SBA in June 2021.	$ -	$ 1,977,228
Less current portion of SBA PPP loan payable		847,334
SBA PPP loan payable, excluding current portion	$ -	$ 1,129,894

On May 7, 2020, Labette Health was granted a $6,118,700 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. Labette Health received loan forgiveness of the loan amount plus accrued loan interest on June 10, 2021, and has recognized this forgiveness as nonoperating revenues.

The following is a summary of changes of Labette Health's SBA PPP loan payable:

Outstanding at January 1, 2020	$ -
Obligations incurred	6,118,700
Principal payments	(4,141,472)
Outstanding at December 31, 2020	1,977,228
Loan forgiveness	(1,977,228)
Outstanding at December 31, 2021	$ -

Note M - Long-Term Obligations

Long-term obligations of Labette Health are summarized as follows:

	2021	2020
3.55% Labette County, Kansas Hospital Refunding Revenue Bonds, Series 2016; issued on December 29, 2016, in the original amount of $9,021,000	$ -	$ 8,095,000
3.80% Labette County, Kansas Hospital Refunding Revenue Bonds, Series 2017; issued on January 26, 2017, in the original amount of $15,000,000; due serially through September 1, 2036, with principal payments beginning on March 1, 2017	12,802,000	13,438,000
3.80% Labette County, Kansas Hospital Revenue Bonds, Series 2020; issued on June 2, 2020, in the original amount of $10,000,000; due serially through September 1, 2036, with principal payments beginning on September 1, 2020	2,070,660	174,000
2.65% Labette County, Kansas Hospital Refunding and Improvement Revenue Bonds, Series 2021; issued on November 9, 2021, in the original amount of $9,918,000; due serially through September 1, 2041, with principal payments beginning on September 1, 2022	9,918,000	
Note payable bank obligations; interest rates from 2.35% to 5.00%; in the original loan amounts of $1,499,821 collateralized by equipment and building improvements	1,178,863	492,445
Capital lease obligations; imputed interest rates from 2.02% to 3.55%; collateralized by leased equipment with an amortized cost of $1,735,396 at December 31, 2021	1,764,884	2,173,855
$2,800,000 line of credit, 1.95% rate at December 31, 2020, with interest only payments due monthly through March 26, 2021, renewed on March 26, 2021, at 2.2% with monthly principal and interest payments due through March 26, 2024	2,372,537	2,800,000
1.41% promissory note in the originial amount of $9,959,600; due through December 31, 2051; quarterly interest payments beginning March 1, 2021; quarterly principal and interest payments beginning March 1, 2028	9,959,600	9,959,600
1.41% promissory note in the originial amount of $3,620,400; due through December 31, 2051; quarterly interest payments beginning March 1, 2021; quarterly principal and interest payments beginning March 1, 2028	3,620,400	3,620,400
	43,686,944	40,753,300
Less current maturities	3,536,142	2,493,302
Long-term obligations, less current maturities	$ 40,150,802	$ 38,259,998

Note M - Long-Term Obligations - Continued

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

	Capital lease obligations	Notes payable	Hospital revenue bonds	Total long-term obligations
Outstanding at January 1, 2020	$ 755,640	$ 932,063	$ 22,541,000	$ 24,228,703
Obligations incurred	1,660,000	16,792,871	174,000	18,626,871
Principal payments	(241,785)	(852,489)	(1,008,000)	(2,102,274)
Outstanding at December 31, 2020	2,173,855	16,872,445	21,707,000	40,753,300
Obligations incurred		897,983	12,114,660	13,012,643
Debt extinguished			(7,730,000)	(7,730,000)
Principal payments	(408,971)	(639,028)	(1,301,000)	(2,348,999)
Outstanding at December 31, 2021	$ 1,764,884	$ 17,131,400	$ 24,790,660	$ 43,686,944

On December 29, 2016, the County issued $9,021,000 in Hospital Refunding Revenue Bonds, Series 2016 (the 2016 bonds), for the benefit of Labette Health pursuant to a First Supplemental Bond Trust Indenture dated December 1, 2016. The proceeds of the 2016 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) advance refund $8,405,000 of the Series A, 2007 bonds, and (2) pay certain costs related to the issuance of the 2016 bonds.

On January 26, 2017, the County issued $15,000,000 in Hospital Refunding Revenue Bonds, Series 2017 (the 2017 bonds), for the benefit of Labette Health pursuant to a Second Supplemental Bond Trust Indenture dated January 1, 2017. The proceeds of the 2017 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) advance refund $16,360,000 of the Series A, 2007 bonds, and $2,200,000 of the Series B, 2007 bonds, and (2) pay certain costs related to the issuance of the 2017 bonds.

On June 2, 2020, the County issued Hospital Revenue Bonds, Series 2020, (the Series 2020 bonds) in the principal amount not to exceed $10,000,000 for the benefit of Labette Health pursuant to a Third Supplemental Bond Trust Indenture dated June 1, 2020. The proceeds of the 2020 bonds are to be drawn on as needed after Labette Health expends $6,500,000 of their own funds on renovation and expansion of the current facility and drawn to pay certain costs related to the issuance of the 2020 bonds.

On November 9, 2021, the County issued $9,918,000 in Hospital Refunding and Improvement Revenue Bonds, Series 2021 (the 2021 bonds), for the benefit of Labette Health pursuant to a Fourth Supplemental Bond Trust Indenture dated November 1, 2021. The proceeds of the 2021 bonds were used, together with other available funds to (1) refund $7,730,000 of the Series 2016 bonds, (2) pay certain costs related to the issuance of the 2021 bonds, and (3) pay for renovations and expansion of Labette Health's facilities. The refunding transaction decreased the total amount of future debt service requirements by $2,897,949. This resulted in an economic gain of $1,615,562.

The indenture agreements for the 2016, 2017, 2020, and 2021 bonds require Labette Health to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay principal and interest for the bonds on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The obligations of Labette Health under the indenture agreement are secured by a pledge of its unrestricted revenues, subject to the right of Labette Health to dispose of or encumber property as defined and permitted in the indenture agreement. The indenture agreement also includes certain restrictive covenants relating to the disposition of property, incurrence of additional indebtedness, the level

Note M - Long-Term Obligations - Continued

of days cash on hand, and the level of fees and rates charged. The covenant in the indenture agreement regarding the level of days cash on hand requires that those levels equal or exceed 75 days. The covenant in the indenture agreement regarding the level of fees and rates charged requires that fees and rates for services be set at levels sufficient for Labette Health to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt. That ratio value was 331 percent and 224 percent for the years ended December 31, 2021 and 2020, respectively.

On November 13, 2020, LHEA, executed loan agreements, Note A in the principal amount of $9,959,600 and Note B in the principal amount of $3,620,400 with CHHS Subsidiary CDE 47, LLC. The notes are secured by a leasehold mortgage on certain areas of Labette Health's facilities. LHEA is not permitted to prepay any portion of the principal of the loans until November 13, 2027 (seven-year term). At the end of the seven-year term, a put/call agreement may be exercised, whereby Wells Fargo Community Investment Holdings, LLC, sole-member of Labette Health Investment Fund, LLC a 99.99 percent owner in CCHS Subsidiary CDE 47, LLC, is sold to LHEA. Under the terms of the loan agreements, LHEA has certain compliance requirements, including compliance reporting and maintaining its status as a qualified active low-income community business as defined by the Internal Revenue Code.

Scheduled annual debt service requirements for Labette Health's hospital revenue bonds are as follows:

	Principal	Interest	Total
2022	$ 1,474,000	$ 740,497	$ 2,214,497
2023	1,469,000	753,708	2,222,708
2024	1,519,000	704,679	2,223,679
2025	1,571,000	653,679	2,224,679
2026	1,623,000	601,052	2,224,052
2027 - 2031	6,629,660	2,290,314	8,919,974
2032 - 2036	7,530,000	1,070,584	8,600,584
2037 - 2041	2,975,000	240,487	3,215,487
	$ 24,790,660	$ 7,055,000	$ 31,845,660

Scheduled payments on Labette Health's notes payable to banks are as follows:

	Principal	Interest	Total
2022	$ 1,642,093	$ 255,568	$ 1,897,661
2023	1,419,654	220,794	1,640,448
2024	489,653	194,899	684,552
2025		191,607	191,607
2026		191,607	191,607
2027 - 2031	1,956,912	914,232	2,871,144
2032 - 2036	2,606,391	733,716	3,340,107
2037 - 2041	2,796,560	543,547	3,340,107
2042 - 2046	3,000,603	339,504	3,340,107
2047 - 2051	3,219,534	120,573	3,340,107
Total minimum lease payments	$ 17,131,400	$ 3,706,047	$ 20,837,447

Note M - Long-Term Obligations - Continued

The following is a schedule of future minimum lease payments under capital leases as of December 31, 2021, for Labette Health:

	Principal	Interest	Total
2022	$ 420,049	$ 42,908	$ 462,957
2023	431,433	31,523	462,956
2024	427,454	19,888	447,342
2025	369,955	8,203	378,158
2026	50,127	3,306	53,433
2027 - 2028	65,866	1,584	67,450
Total minimum lease payments	$ 1,764,884	$ 107,412	$ 1,872,296

Total interest costs of Labette Health are summarized as follows:

	2021	2020
Total interest incurred	$ 1,164,046	$ 957,584
Amortization of deferred outflows on advance refunding	33,866	35,511
Bond and notes payable issuance costs	176,680	943,720
Capitalized interest		(3,107)
Interest expense	$ 1,374,592	$ 1,933,708

Long-term obligations of the discretely presented component units are summarized as follows:

	2021	2020
2.38% USDA Community Facilities loan, in the original amount of $5,600,000; payable in monthly installments of $19,656, including interest through October 25, 2052	$ 5,150,325	$ 5,262,434
3.25% USDA Community Facilities loan, in the original amount of $400,000; payable in monthly installments of $1,596, including interest through October 25, 2052	372,632	379,550
	5,522,957	5,641,984
Less current maturities	121,947	119,027
	$ 5,401,010	$ 5,522,957

Note M - Long-Term Obligations - Continued

The following is a summary of changes in long-term debt for the discretely presented component units:

Outstanding at January 1, 2020	$ 5,757,781
Principal payments	(115,797)
Outstanding at December 31, 2020	5,641,984
Principal payments	(119,027)
Outstanding at December 31, 2021	$ 5,522,957

Scheduled annual debt service requirements on long-term debt for the discretely presented component units, are as follows:

	Principal	Interest	Total
2022	$ 121,947	$ 133,077	$ 255,024
2023	124,939	130,085	255,024
2024	127,648	127,376	255,024
2025	131,138	123,886	255,024
2026	134,358	120,666	255,024
2027 - 2031	722,592	552,528	1,275,120
2032 - 2036	815,658	459,462	1,275,120
2037 - 2041	921,399	353,721	1,275,120
2042 - 2046	1,040,625	234,495	1,275,120
2047 - 2051	1,175,425	99,695	1,275,120
2052	207,228	2,307	209,535
	$ 5,522,957	$ 2,337,298	$ 7,860,255

Total interest expense for the discretely presented component units for December 31, 2021 and 2020, was $135,997 and $139,227, respectively.

Note N - Defined Contribution Pension Plans

Labette Health sponsors a defined contribution pension plan that provides pension benefits for substantially all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plan are as follows.

Employees become eligible for employer contributions after completing one year of service. Labette Health contributes a percentage of gross compensation based on the eligible employee's years of service as follows: 2 percent if more than one year but less than 5 years of service; 4 percent if five or more years of service but less than fifteen; and 6 percent if fifteen or more years of service. Labette Health may also make a discretionary matching contribution of participant contributions to the plan. The contribution cannot exceed a percentage of gross compensation based on the eligible employee's years of service as follows: 1 percent if

Note N - Defined Contribution Pension Plans - Continued

more than five years of service but less than ten years of service, and 2 percent if more than ten years of service. The employees are not required to make contributions to the plan but may elect to contribute from 1 percent to 20 percent of the participant's compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions for each employee are fully vested after 10 years of continuous service.

For the years ended December 31, 2021 and 2020, Labette Health and covered employees made contributions to the plan as follows:

	2021	2020
Employer contributions	$ 539,400	$ 556,079
Employee contributions	501,025	539,390
	$ 1,040,425	$ 1,095,469

Labette Health has entered into deferred compensation agreements with certain employees. These agreements are eligible deferred compensation plans under Section 401(a) or 457(b) of the Internal Revenue Code. The plans can be amended by mutual consent of Labette Health and the plans' participants. All assets of the plans are held by a third-party investment company for the sole benefit of the employee and the employee's designated beneficiary. The plans generally provide for employer contributions based on the employees' years of service. The employees are not required to make contributions to the plans but may elect to contribute a percentage of compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions become fully vested after periods defined in each plan. For the years ended December 31, 2021 and 2020, Labette Health and covered employees made contributions to these plans as follows:

	2021	2020
Employer contributions	$ 745,867	$ 448,630
Employee contributions	205,194	235,584
	$ 951,061	$ 684,214

Note O - Concentration of Credit Risk

Labette Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2021 and 2020, is as follows:

	2021	2020
Medicare	22.9 %	27.8 %
Medicaid	11.0	8.4
Blue Cross	16.2	14.1
Other insurers	25.8	23.2
Patients	24.1	26.5
	100.0 %	100.0 %

Note P - Condensed Financial Information

The following is condensed combined financial data for Labette Health and its blended component unit LHEA as of December 31, 2021 and 2020, and for the years then ended:

	December 31, 2021			
	Labette Health	LHEA	Eliminations	Total
Current assets	$ 44,472,782	$ -	$ -	$ 44,472,782
Noncurrent cash and investments	16,399,461	270,300		16,669,761
Capital assets, net	32,672,773	11,723,212		44,395,985
Leverage loan receivable	9,959,600			9,959,600
Other assets	1,301,534			1,301,534
Total assets	104,806,150	11,993,512	-	116,799,662
Deferred outflows of resources	264,523			264,523
Total assets and deferred outflows of resources	$ 105,070,673	$ 11,993,512	$ -	$ 117,064,185
Current liabilities	$ 19,470,210	$ -	$ -	$ 19,470,210
Long-term debt	26,570,802	13,580,000		40,150,802
Other long-term liabilities				
Total liabilities	46,041,012	13,580,000	-	59,621,012
Total net position	59,029,661	(1,586,488)		57,443,173
Total liabilities and net position	$ 105,070,673	$ 11,993,512	$ -	$ 117,064,185

	December 31, 2020			
	Labette Health	LHEA	Eliminations	Total
Current assets	$ 40,198,981	$ 3,420,446	$ (1,604,375)	$ 42,015,052
Noncurrent cash and investments	18,781,748	8,470,992		27,252,740
Capital assets, net	27,146,344	4,285,731		31,432,075
Leverage loan receivable	9,959,600			9,959,600
Other assets	1,128,003			1,128,003
Total assets	97,214,676	16,177,169	(1,604,375)	111,787,470
Deferred outflows of resources	298,389			298,389
Total assets and deferred outflows of resources	$ 97,513,065	$ 16,177,169	$ (1,604,375)	$ 112,085,859
Current liabilities	$ 24,317,366	$ 3,420,447	$ (1,604,375)	$ 26,133,438
Long-term debt	25,809,892	13,580,000		39,389,892
Other long-term liabilities	708,222			708,222
Total liabilities	50,835,480	17,000,447	(1,604,375)	66,231,552
Total net position	46,677,585	(823,278)		45,854,307
Total liabilities and net position	$ 97,513,065	$ 16,177,169	$ (1,604,375)	$ 112,085,859

Note P - Condensed Financial Information - Continued

	December 31, 2021			
	Labette Health	LHEA	Eliminations	Total
Net patient service revenue	$ 77,970,138	$ -	$ -	$ 77,970,138
Other operating revenues	7,527,324			7,527,324
Total operating revenues	85,497,462	-	-	85,497,462
Salaries and wages	40,876,391			40,876,391
Employee benefits	7,074,529			7,074,529
Supplies and other expenses	36,808,279	40,500		36,848,779
Depreciation and amortization	3,210,460			3,210,460
Total operating expenses	87,969,659	40,500	-	88,010,159
Operating loss	(2,472,197)	(40,500)		(2,512,697)
Nonoperating revenues (expenses)	8,599,232	(191,607)		8,407,625
Transfers between Hospital and component unit	531,103	(531,103)		
Capital grant, contributions, and sales tax revenue for capital purchases	5,693,938			5,693,938
Change in net position	12,352,076	(763,210)	-	11,588,866
Net position beginning of year	46,677,585	(823,278)		45,854,307
Net position end of year	$ 59,029,661	$(1,586,488)	$ -	$ 57,443,173

	December 31, 2020			
	Labette Health	LHEA	Eliminations	Total
Net patient service revenue	$ 71,659,000	$ -	$ -	$ 71,659,000
Other operating revenues	9,923,260			9,923,260
Total operating revenues	81,582,260	-	-	81,582,260
Salaries and wages	37,748,660			37,748,660
Employee benefits	5,971,384			5,971,384
Supplies and other expenses	34,447,116	28,010		34,475,126
Depreciation and amortization	4,659,023			4,659,023
Total operating expenses	82,826,183	28,010	-	82,854,193
Operating loss	(1,243,923)	(28,010)		(1,271,933)
Nonoperating revenues (expenses)	2,145,850	(795,268)		1,350,582
Transfers between Hospital and component unit				
Capital grant, contributions, and sales tax revenue for capital purchases	2,705,310	-	-	2,705,310
Change in net position	3,607,237	(823,278)	-	2,783,959
Net position beginning of year	43,070,348			43,070,348
Net position end of year	$ 46,677,585	$ (823,278)	$ -	$ 45,854,307

Note P - Condensed Financial Information - Continued

	December 31, 2021			
	Labette Health	LHEA	Eliminations	Total
Cash flows from operating activities				
Receipts from and on behalf of patients	$ 76,657,273	$ -	$ -	$ 76,657,273
Payments to or on behalf of employees	(47,884,334)			(47,884,334)
Payments for supplies and services	(37,843,303)	(172,554)		(38,015,857)
Other receipts and payments	9,605,131			9,605,131
Net cash provided (used) by operating activities	534,767	(172,554)	-	362,213
Cash flows from noncapital and related financing activities				
COVID-19 grants received	1,731,437			1,731,437
Transfer	(54,902)	54,902		
Other noncapital financing activities	1,681,519			1,681,519
Net cash provided by capital and related financing activities	3,358,054	54,902	-	3,412,956
Cash flows from capital and related financing activities				
Acquisition of capital assets	(6,943,441)	(11,311,879)		(18,255,320)
Proceeds from bonds/notes payable	13,012,643			13,012,643
Principal payments long-term obligations	(2,348,999)			(2,348,999)
Payment to extinguish long-term obligations	(7,730,000)			(7,730,000)
Payment of issuance costs and interest	(1,110,580)	(191,607)		(1,302,187)
COVID-19 capital grants received	3,359,488			3,359,488
Other capital financing activities	638,309			638,309
Net cash provided (used) by capital and related financing activities	(1,122,580)	(11,503,486)	-	(12,626,066)
Cash flows from investing activities				
Changes in				
Assets held by trustee	(1,975,446)			(1,975,446)
Investment income received	228,540			228,540
Net cash used by investing activities	(1,746,906)	-	-	(1,746,906)
Net change in cash and cash equivalents	1,023,335	(11,621,138)		(10,597,803)
Cash and cash equivalents at beginning of year	42,074,400	11,891,438		53,965,838
Cash and cash equivalents at end of year	$ 43,097,735	$ 270,300	$ -	$ 43,368,035
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ 28,713,313	$ -	$ -	$ 28,713,313
Cash included in assets limited as to use				
Internally designated for capital assets	12,465,326			12,465,326
By County for capital assets	1,345,546			1,345,546
Under indenture of loan agreement		270,300		270,300
Total cash and cash equivalents	$ 43,097,735	$ 270,300	$ -	$ 43,368,035

Note P - Condensed Financial Information - Continued

	December 31, 2020			
	Labette Health	LHEA	Eliminations	Total
Cash flows from operating activities				
Receipts from and on behalf of patients	$ 69,707,505	$ -	$ -	$ 69,707,505
Payments to or on behalf of employees	(41,913,379)			(41,913,379)
Payments for supplies and services	(33,248,714)	(28,010)		(33,276,724)
Other receipts and payments	8,105,119		1,604,375	9,709,494
Net cash provided (used) by operating activities	2,650,531	(28,010)	1,604,375	4,226,896
Cash flows from noncapital and related financing activities				
Proceeds and payments on SBA PPP loan	1,977,228			1,977,228
COVID-19 grants received	12,068,496			12,068,496
Other noncapital financing activities	792,756			792,756
Net cash provided by capital and related financing activities	14,838,480	-	-	14,838,480
Cash flows from capital and related financing activities				
Acquisition of capital assets	(5,091,925)	(865,284)	(1,604,375)	(7,561,584)
Proceeds from bonds/notes payable	3,386,871	13,580,000		16,966,871
Principal payments long-term obligations	(2,102,274)			(2,102,274)
Payment to extinguish long-term obligations				
Payment of issuance costs and interest	(1,106,038)	(795,268)		(1,901,306)
COVID-19 capital grants received	1,642,557			1,642,557
Other capital financing activities	2,722,898			2,722,898
Net cash provided (used) by capital and related financing activities	(547,911)	11,919,448	(1,604,375)	9,767,162
Cash flows from investing activities				
Changes in				
Assets held by trustee	(99,375)			(99,375)
Payment of leverage loan receivable	(9,959,600)			(9,959,600)
Investment income received	473,200			473,200
Net cash used by investing activities	(9,585,775)	-	-	(9,585,775)
Net change in cash and cash equivalents	7,355,325	11,891,438		19,246,763
Cash and cash equivalents at beginning of year	34,719,075			34,719,075
Cash and cash equivalents at end of year	$ 42,074,400	$ 11,891,438	$ -	$ 53,965,838
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ 23,425,718	$ -	$ -	$ 23,425,718
Cash included in assets limited as to use				
Internally designated for capital assets	10,191,840			10,191,840
By County for capital assets	1,257,195			1,257,195
By contributors for capital assets	498,950			498,950
By contributors for capital assets	6,700,697	11,891,438		18,592,135
Total cash and cash equivalents	$ 42,074,400	$ 11,891,438	$ -	$ 53,965,838

Note P - Condensed Financial Information - Continued

The following is condensed financial data for the discretely presented component units of Labette Health as of December 31, 2021 and 2020, and for the years then ended. The Foundation is a major component unit due to the considerable financial benefit it provides to Labette Health.

	2021		2020	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Cash and cash equivalents	$ -	$ 2,671	$ 75,283	$ 2,671
Investments	233,385		384,147	
Other receivables	371		243	
Pledges receivable	17,709		22,748	
Total current assets	251,465	2,671	482,421	2,671
Assets limited as to use	4,213,680		2,675,062	
Capital assets, net	4,544,766	219,963	4,938,474	238,540
Other assets	141,299		117,784	
Total assets	$ 9,151,210	$ 222,634	$ 8,213,741	$ 241,211
Current portion of long-term obligations	$ 121,947	$ -	$ 119,027	$ -
Due to Labette Health		172,348	2,453	223,615
Total liabilities	121,947	172,348	121,480	223,615
Long-term obligations, less current maturities	5,401,010	-	5,522,957	-
Net position				
Net investment in capital assets	(978,191)	75,587	(703,509)	42,550
Restricted				
For debt service	106,591		80,948	
Expendable for specific Labette Health operating activities	3,808,389		2,594,114	
Unrestricted	691,464	(25,301)	597,751	(24,954)
Total net position	3,628,253	50,286	2,569,304	17,596
Total liabilities and net position	$ 9,151,210	$ 222,634	$ 8,213,741	$ 241,211

Note P - Condensed Financial Information - Continued

	2021		2020	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Rental revenue from Labette Health	$ 600,000	$ 52,567	$ 600,000	$ 52,567
Other operating revenues	1,700,696		2,160,088	
Total operating revenues	2,300,696	52,567	2,760,088	52,567
Supplies and other expenses	777,648	1,300	693,364	2,241
Depreciation and amortization	393,708	18,577	393,708	29,817
Total operating expenses	1,171,356	19,877	1,087,072	32,058
Operating income	1,129,340	32,690	1,673,016	20,509
Nonoperating revenues (expenses)	(70,391)		(133,333)	
Change in net position	1,058,949	32,690	1,539,683	20,509
Net position beginning of year	2,569,304	17,596	1,029,621	(2,913)
Net position end of year	$ 3,628,253	$ 50,286	$ 2,569,304	$ 17,596

Note P - Condensed Financial Information - Continued

	2021		2020	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Cash flows from operating activities				
Payments for supplies and services	$ (780,101)	$ (52,567)	$ (691,291)	$ (51,900)
Other receipts and payments	2,303,116	52,567	1,674,412	52,567
Net cash provided by operating activities	1,523,015	-	983,121	667
Cash flows from capital and related financing activities				
Repayments of long-term obligations	(119,027)		(115,797)	
Interest paid	(135,997)		(139,227)	
Net cash used by capital and related financing activities	(255,024)	-	(255,024)	-
Cash flows from investing activities				
Changes in				
Investments	(224,582)		(7,867)	
Investment income received	36,848		7,959	
Net cash provided (used) by investing activities	(187,734)	-	92	-
Net change in cash and cash equivalents	1,080,257	-	728,189	667
Cash and cash equivalents at beginning of year	1,566,649	2,671	838,460	2,004
Cash and cash equivalents at end of year	$ 2,646,906	$ 2,671	$ 1,566,649	$ 2,671
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ -	$ 2,671	$ 75,283	$ 2,671
Cash included in assets limited as to use				
Internally designated for capital assets	298,700			
Under loan agreement	106,591		80,948	
For specific operating activities	2,241,615		1,410,418	
Total cash and cash equivalents	$ 2,646,906	$ 2,671	$ 1,566,649	$ 2,671

Note Q - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses, and suspended elective procedures at health care facilities. Patient volumes and related revenues for Labette Health's services were significantly impacted during the latter part of March 2020 and through year-end as a result of the pandemic. While many restrictions have been eased and Labette Health is now able to perform elective procedures, the pandemic continues to impact Labette Health's operations. The impact on future operations is driven by numerous factors, which are beyond management's control and management's ability to forecast the total impact on operations. Labette Health is unable to estimate the length of time or financial impact the pandemic will have on operations.

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note K and Note L pertaining to the SBA PPP loan and the COVID-19 grant funds.

Note R - Risk Management

For the years ended December 31, 2021 and 2020, Labette Health was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. Labette Health is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $300,000 pursuant to any one judgment or settlement against Labette Health for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $900,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of $1,000,000 per occurrence with an aggregate amount in any policy period of $3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2022, for the policy period from January 1, 2022 to January 1, 2023.

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

Note S - Commitments and Contingencies

Labette Health purchases professional and general liability insurance to cover medical malpractice and other liability claims (Note R). There are known claims and incidents that have been asserted. These claims have been referred to Labette Health's insurance carriers and are in various stages of processing. No accrual for loss contingencies related to these items has been made in the financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated.

Note T - Commitments and Contingencies

Labette Health leases property from the Foundation under a lease expiring October 31, 2052. Scheduled future minimum rental payments under this lease are as follows:

2022	$ 600,000
2023	600,000
2024	600,000
2025	600,000
2026	600,000
2027 - 2031	3,000,000
2032 - 2036	3,000,000
2037 - 2041	3,000,000
2042 - 2046	3,000,000
2047 - 2051	3,000,000
2052	500,000
Total future minimum lease payments	$ 18,500,000

The Foundation recognized $600,000 in other operating revenue under this rental agreement during 2021 and 2020.

Labette Health also leases other property and equipment under various operating leases. Rental expense for all operating leases consisted of the following:

	2021	2020
Minimum rentals due under leases expiring in more than one year	$ 600,000	$ 600,000
Other rents	170,543	163,415
	$ 770,543	$ 763,415

Note U - Related Party Transactions

Labette Health received $756,135 and $651,577 from the Foundation during 2021 and 2020, respectively. Labette Health incurred $119,559 and $102,990 in salary, employee benefits, and professional fees on behalf of the Foundation during 2021 and 2020, respectively. Labette Health paid rent to the Foundation totaling $600,000 during 2021 and 2020.

Labette Health paid rent to LHRP totaling $52,567 during 2021 and 2020, respectively.

At December 31, 2021, Labette Health had approximately $2,976,000 of deposits with a local bank in addition to an outstanding equipment lease of approximately $887,000. A member of Labette Health's board of trustees is an executive officer of the local bank.

At December 31, 2021, Labette Health had approximately $2,710,000 of deposits with a local bank in addition to an outstanding equipment lease of approximately $84,000. A member of LHEA's board of directors is the president of the local bank.

Note V - County Tax Proceeds

On June 26, 2001, voters of the County approved a .25 percent health care retailers' sales tax to be used as a source of funding for the provision of emergency medical services. The County has agreed to pay Labette Health an amount equal to the lesser of 100 percent of the sales tax or 95 percent of Labette Health's direct loss attributable to the provision of ambulance services. Of the sales tax, 100 percent exceeded 95 percent of Labette Health's direct loss attributable to the provision of ambulance services by $102,146 during 2021 and by $167,028 during 2020. The County has restricted these amounts to use for future capital acquisitions for ambulance services.

Note W - Subsequent Events

Subsequent to December 31, 2021, the Medical Center has committed to additions and renovations to facilities of approximately $1,998,000.

In September 2022, SEKRH committed to the purchase of land for $300,000.

Supplementary Information

Labette County Medical Center
d/b/a Labette Health
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Passed through to subrecipients	Total federal expenditures
United States Department of Agriculture				
Summer Food Service Program for Children	10.559	N/A	$ -	$ 125,709
Total United States Department of Agriculture			-	125,709
United States Department of Treasury				
Passed through the State of Kansas				
COVID-19 State and Local Fiscal Recovery Funds KDHE	21.027	N/A		441,751
Total United States Department of Treasury			-	441,751
U.S. Department of Health and Human Resources				
COVID-19 Provider Relief Fund	93.498	N/A		11,354,845
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A		535,331
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461			349,428
Rural Health Clinic Vaccine Confidence Program	93.912	N/A		333,686
Total U.S. Department of Health and Human Services			-	12,573,290
Total federal awards			$ -	$ 13,140,750

Labette County Medical Center
d/b/a Labette Health
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Presentation

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

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 continued 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

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

Note 4 - Donated Personal Protective Equipment (unaudited)

Labette Health received nonmonetary assistance of personal protective equipment (PPE) during the emergency period of the COVID-19 pandemic. The donated PPE was generally provided by donors without information about compliance or reporting requirements associated with federal financial CFDA numbers. The donated PPE is not included in the Schedule. The value of the donated PPE is not reasonably estimable.

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

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

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

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 Labette County Medical Center d/b/a Labette Health, as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2022. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the aggregate discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Labette Health'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 Labette Health's internal control. Accordingly, we do not express an opinion on the effectiveness of the Labette Health's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Labette Health'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-002.

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Labette Health's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Labette Health's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Labette Health'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 Labette Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Labette Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson: Johnsen LLC

Topeka Kansas
October 25, 2022

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

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Labette County Medical Center d/b/a Labette Health's 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 Labette Health's major federal programs for the year ended December 31, 2021. Labette Health'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, Labette County Medical Center d/b/a Labette Health 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 Labette Health 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 Labette Health'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 Labette Health'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 Labette Health'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,

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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 Labette Health'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 Labette Health'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 Labette Health'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 Labette Health'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.

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 costs as items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

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

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

Report on Internal Control over Compliance

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be material weaknesses.

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 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.

Government Auditing Standards requires the auditor to perform limited procedures on Labette Health's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Labette Health's reponse was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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: Johnsen LLC

Topeka Kansas
October 25, 2022

Labette County Medical Center
d/b/a Labette Health
Schedule of Findings and Questioned Costs
Year ended December 31, 2021

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

Identification of major programs

Assistance listing number	Name of Program
93.498	Provider Relief Fund

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

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

2021-001

Identification: 93.498 United States Department of Health and Human Services, COVID-19 Provider Relief Fund; Noncompliance Finding/Material Weakness; Reporting Compliance Requirement.

Criteria: The Provider Relief Fund (PRF) was established under the Coronavirus, Aid, Relief, and Economic Security Act (Pub. L. No. 116-136, 134 Stat. 563) and the Coronavirus Relief and Response Supplemental Appropriations Act (Pub. L. No. 116-260). Eligible health care providers received PRF appropriations for health care-related expenses or lost revenues attributable to coronavirus. Recipients who received one or

more payments exceeding $10,000 are required to report in each applicable reporting period. The PRFs are to be used to prevent, prepare for, and respond to coronavirus. The PRFs are to reimburse recipients only for health care related expenses or lost revenues that are attributable to coronavirus.

Condition: The Medical Center had an error in the Period 2 reporting submission. The Medical Center's spreadsheet for the construction project to prevent, prepare for, and respond to COVID-19 did not properly reflect the completed portion of the project that was in service by December 31, 2021.

Cause: The Medical Center's spreadsheet contained the various projects per the contractor's statement but did not include the architect's fees or properly identify the projects complete.

Effect: The Medical Center understated the calculation of expenditures to prevent, prepare, and respond to coronavirus by $3,500,228. However, at the time of reporting the Medical Center had identified sufficient expenditures for reporting to cover the PRF grant funding.

Questioned costs: None

Perspective information: We tested the Period 2 report submitted during the reporting period to supporting documentation to determine if the report was completed accurately.

Repeat Finding: N/A

Recommendations: We recommend policies and procedures over federal grant reporting be strengthened to ensure required reports are completed accurately.

Views of Responsible Officials: At the time the reporting was completed, the Medical Center had more expenditures to prevent, prepare, and respond to COVID-19 identified than payments received from the PRF. As a result, the Medical Center did not need to capture the additional expense. In the future, the Medical Center will be cognizant of correctly capturing the expenses that have been identified as being to prevent, prepare, and respond to COVID-19.

2021-002

Identification: 93.498 United States Department of Health and Human Services, COVID-19 Provider Relief Fund; Noncompliance Finding/Material Weakness; Allowable Activities Compliance Requirement.

Criteria: The Provider Relief Fund (PRF) was established under the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act) (Pub. L. No. 116-136, 134 Stat. 563) and the Coronavirus Relief and Response Supplemental Appropriations Act (Pub. L. No. 116-260). The PRFs are to be used to prevent, prepare for, and respond to coronavirus. The PRFs are to reimburse recipients only for health care related expenses or lost revenues that are attributable to coronavirus. PRF funds received during Period 1, April 10, 2020 through June 30, 2020, have a period of availability of January 1, 2020 through June 30, 2021, and Period 2, July 2021 through December 31, 2021, have a period of availability of January 1, 2020 through December 31, 2021. Expenses for capital facilities may be fully expensed only in cases where the purchase was directly related to preventing, preparing for, and responding to coronavirus. In order for the capital facilities projects' costs to be expensed, the project must be fully completed by the end of the period of availability associated with the payment received period.

Condition: The Medical Center did not meet the requirement that the PRF funds be used for expenditures within the period of availability or to prevent, prepare for, or respond to coronavirus. The Medical Center included $4,470,458 in expenditures that were outside the period of availability.

Cause: The Medical Center included capital projects that were not fully complete during the period of availability as Period 2 expenditures.

Effect: Overstatement of PRF expenditures reported on Period 2 submission.

Questioned costs: Known $4,470,458. However as noted in finding 2021-001, the Medical Center understated expenditures by $3,500,228. Together findings 2021-001 and 2021-002 result in a net overstatement of $970,230. In addition, the Medical Center reported unused lost revenues of $723,052. After factoring in finding 2021-001 and unused lost revenues, the overstatement of expenditures is $247,178.

Perspective information: In the sample of 60 and 6 individually significant, there was 1 instance noted from the individually significant sample that was outside the period of availability. Extrapolation was not necessary. The sample was a statistically valid sample.

Repeat finding: N/A

Recommendations: We recommend policies and procedures over federal grant reporting be strengthened to ensure expenditures applied to the federal grants are within the period of availability.

Views of Responsible Officials: At the time of the reporting, the Medical Center interpreted the period of availability to include capital facilities projects that were scheduled to be completed and occupied during quarter 3 of 2021, but due to COVID-19 impacting supply chain and manpower, the projects were delayed. At December 31, 2021, the projects were significantly completed as the Medical Center never relaxed efforts to complete.

This misstatement/misinterpretation was identified and rectified by acknowledging and properly recording those completed portions of the project that were identified on source worksheet and were in service at December 31, 2021.