**Independent Auditor's Report and Financial Statements**

# Lincoln County Hospital

**March 31, 2023 and 2022**

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# Lincoln County Hospital
# Management's Discussion and Analysis
# Years ended March 31, 2023 and 2022

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2023 and 2022. Please read it in conjunction with the accompanying financial statements.

## Financial highlights

The Hospital reported an operating loss of $973,528 in 2023, $686,895 in 2022, and $850,215 in 2021. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position increased by $86,248 in 2023 and $2,204,188 in 2022.

## Using these financial statements

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

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

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

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

Assets, deferred outflows, liabilities, and net position

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

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

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 3,464,225 | $ 4,040,674 | $ 6,493,779 |
| Capital assets, net | 3,014,849 | 3,115,024 | 2,862,068 |
| Other noncurrent assets | 471,671 | 483,029 | 483,041 |
| **Total assets** | 6,950,745 | 7,638,727 | 9,838,888 |
| **Deferred outflows of resources on advance refunding** | 135,849 | 157,125 | 179,766 |
| **Liabilities** | | | |
| Current liabilities | 921,527 | 1,404,414 | 5,255,995 |
| Noncurrent liabilities | 3,814,894 | 4,127,513 | 4,702,922 |
| **Total liabilities** | 4,736,421 | 5,531,927 | 9,958,917 |
| **Total net position** | $ 2,350,173 | $ 2,263,925 | $ 59,737 |

Beginning in March 2020, the Hospital, along with all health care providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Hospital's services were impacted. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation has provided funding during these uncertain times. The Hospital was approved for a Paycheck Protection Program (PPP) loan and received several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to the pandemic. In addition, the Hospital received advanced payments from Medicare. In 2021, total assets and liabilities increased as a result of these funding mechanisms. All COVID-19 support programs implemented as a result of the pandemic were fully expended and recognized in the financial statements by March 31, 2023.

Our ratio of current assets to current liabilities was to 3.8 in 2023, increasing from 2.9 and 1.2 in 2022 and 2021, respectively. Current assets are impacted by the payment position with Medicare, change in net accounts receivable, and the change in current liabilities. Current assets and liabilities increased in 2021 as a result of the COVID-19 support programs.

The Hospital's capital acquisitions were $428,603, $810,329, and $166,616 during 2023, 2022, and 2021, respectively. The remaining change in capital assets, net, results from the normal annual depreciation and amortization provisions of $528,778, $507,136, and $520,683 during 2023, 2022, and 2021, respectively.

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

The board-designated funds increased by $1,446 in 2023 after a decrease of $13,058 in 2022. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

Operating results and changes in net position

In 2023, the Hospital's net position increased by $86,248. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Operating revenues** | | | |
| Net patient service revenue | $ 6,855,879 | $ 6,801,074 | $ 6,639,453 |
| Other operating revenue | 487,749 | 475,715 | 516,108 |
| **Total operating revenues** | 7,343,628 | 7,276,789 | 7,155,561 |
| **Operating expenses** | | | |
| Salaries and benefits | 3,852,859 | 3,807,921 | 4,178,074 |
| Supplies and other | 3,935,519 | 3,648,627 | 3,307,019 |
| Depreciation and amortization | 528,778 | 507,136 | 520,683 |
| **Total operating expenses** | 8,317,156 | 7,963,684 | 8,005,776 |
| **Operating loss** | (973,528) | (686,895) | (850,215) |
| **Nonoperating revenues net of expenses and contributions for capital** | 1,059,776 | 2,891,083 | 1,237,031 |
| **Change in net position** | $ 86,248 | $ 2,204,188 | $ 386,816 |

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2023, the Hospital's operating loss increased by $286,633 in comparison to 2022, while in 2022 the operating loss decreased by $163,320 in comparison to 2021. The Hospital's net patient service revenue in 2023 decreased by 0.8 percent and in 2022 increased by 2.4 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and to a greater extent, the change in Medicare reimbursable costs. The change in net revenues was accompanied with a 4.4 percent increase in operating expenses during 2023, and a 0.5 percent decrease in 2022.

The Hospital received 77 percent of its net patient revenue from the Medicare program in 2023 and 2022, with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program.

Employee salaries, wages, and benefits increased by $44,938 or 1.2 percent in 2023, and decreased by $370,153 or 8.9 percent in 2022, as compared with the previous year. The change in salaries is driven by two factors. The change in full-time equivalent employees (FTEs) and changes in employee hourly wages. The Hospital employed an average of 48 FTEs during 2023, a decrease of 2 FTEs from 2022. FTEs for 2022 decreased by 6 from 2021. FTEs were lower in 2023 due to staffing vacancies and the utilization of more contract labor to provide coverage. Salaries, wages, and employee benefits represent 56.2 percent, 56.0 percent, and 62.9 percent of total net patient service revenue in 2023, 2022, and 2021, respectively. Employee benefits as a percentage of salary and wage expense were 28.4 percent in 2023, 26.5 percent in 2022, and 28.4 percent in 2021.

Supplies and other expenses increased by $286,892 in 2023, increased by $341,608 in 2022, and increased by $117,852 in 2021. The primary reason for the increase in costs since 2023 is the use of contract labor due to staff turnover and labor shortages due to the pandemic.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high-quality health care services to our patients. The tax appropriations received decreased by $14,000 in 2023. The Hospital also recognized $637,110 and $1,765,656 of COVID-19 grant funds in 2023 and 2022, respectively. In addition, the Hospital recognized SBA PPP loan forgiveness of $678,787 in 2022.

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

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## Independent Auditor's Report

Board of Trustees
Lincoln County Hospital

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of Lincoln County Hospital (the Hospital), a component unit of Lincoln County, Kansas, and its discretely presented component unit, as of and for the years ended March 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2023 and 2022, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

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

***Emphasis of Matter***

As discussed in Note A21 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *"Leases."* Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.


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

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

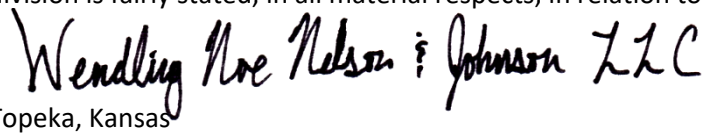
***Required Supplementary Information***

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

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



Topeka, Kansas
August 7, 2023

**Financial Statements**

**Lincoln County Hospital**
**Statements of Net Position**
**March 31, 2023 and 2022**

**Assets and Deferred Outflows of Resources**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Hospital | Component unit | Hospital | Component unit |
| **Current assets** | | | | |
| Cash | $ 2,475,673 | $ 101,015 | $ 2,674,711 | $ 108,837 |
| Certificates of deposit | | 10,100 | | 2,950 |
| Assets limited as to use | 264,162 | | 178,736 | |
| Accounts receivable, net of allowance for uncollectible accounts of $112,155 in 2023 and $80,495 in 2022 | 468,207 | | 670,933 | |
| Other receivables | 56,750 | | 19,676 | |
| Inventories | 190,313 | | 200,706 | |
| Prepaid expenses and other | 9,120 | | 5,912 | |
| Estimated third-party payor settlements | | | 290,000 | |
| **Total current assets** | 3,464,225 | 111,115 | 4,040,674 | 111,787 |
| **Assets limited as to use** | | | | |
| By Board of Trustees | | | | |
| For operations | 13,427 | | 13,379 | |
| For debt service reserve | 364,187 | | 362,960 | |
| For capital assets | 50,829 | | 50,658 | |
| By Public Building Commission | 307,390 | | 178,736 | |
| | 735,833 | - | 605,733 | - |
| Less amounts required to meet current obligations | 264,162 | | 178,736 | |
| | 471,671 | - | 426,997 | - |
| **Capital assets** | | | | |
| Capital assets not being depreciated | 22,473 | 37,365 | 42,745 | 37,365 |
| Capital assets, net of accumulated depreciation | 2,621,955 | 64,475 | 2,660,312 | 67,410 |
| Leased assets, net of accumulated amortization | 370,421 | | 411,967 | |
| **Capital assets, net** | 3,014,849 | 101,840 | 3,115,024 | 104,775 |
| **Other assets** | - | - | 56,032 | - |
| **Total assets** | 6,950,745 | 212,955 | 7,638,727 | 216,562 |
| **Deferred outflows of resources** | | | | |
| Deferred outflows on advance refunding | 135,849 | - | 157,125 | - |
| **Total assets and deferred outflows of resources** | $ 7,086,594 | $ 212,955 | $ 7,795,852 | $ 216,562 |

The accompanying notes are an integral part of these statements.

**Liabilities and Net Position**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Hospital | Component unit | Hospital | Component unit |
| **Current liabilities** | | | | |
| Current maturities of long-term obligations | $ 255,000 | $ - | $ 250,000 | $ - |
| Current maturities of lease liabilities | 93,503 | | 101,895 | |
| Accounts payable and other accrued liabilities | 83,150 | | 158,653 | |
| Salaries payable | 178,814 | | 185,097 | |
| Payroll taxes payable | 83,591 | | 89,210 | |
| Vacation benefits payable | 134,274 | | 122,092 | |
| Other accrued benefits | 39,032 | | 39,500 | |
| Interest payable | 9,163 | | 9,788 | |
| Unearned COVID-19 revenue | | | 402,764 | |
| Estimated third-party payor settlements | 45,000 | | 45,415 | |
| **Total current liabilities** | 921,527 | - | 1,404,414 | - |
| **Long-term liabilities** | | | | |
| Long-term obligations, less current maturities | 3,536,901 | | 3,811,776 | |
| Lease liabilities, less current maturities | 277,993 | | 315,737 | |
| **Total long-term liabilities** | 3,814,894 | - | 4,127,513 | - |
| **Total liabilities** | 4,736,421 | - | 5,531,927 | - |
| **Net position** | | | | |
| Invested in capital assets net of related debt | (1,012,700) | | (1,207,259) | |
| Restricted | | | | |
| For debt service | 307,390 | | 178,736 | |
| For specific operating activities | | 79,175 | | 65,892 |
| Unrestricted | 3,055,483 | 133,780 | 3,292,448 | 150,670 |
| **Total net position** | 2,350,173 | 212,955 | 2,263,925 | 216,562 |
| **Total liabilities and net position** | $ 7,086,594 | $ 212,955 | $ 7,795,852 | $ 216,562 |

**Lincoln County Hospital**
**Statements of Revenues, Expenses, and Changes in Net Position**
**Years ended March 31, 2023 and 2022**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Hospital | Component unit | Hospital | Component unit |
| **Operating revenues** | | | | |
| Net patient service revenue | $ 6,855,879 | $ - | $ 6,801,074 | $ - |
| Other | 487,749 | 5,053 | 475,715 | 27,863 |
| **Total operating revenues** | 7,343,628 | 5,053 | 7,276,789 | 27,863 |
| **Operating expenses** | | | | |
| Salaries and wages | 3,000,763 | | 3,011,324 | |
| Employee benefits | 852,096 | | 796,597 | |
| Supplies and other | 3,935,519 | 6,076 | 3,648,627 | 5,811 |
| Depreciation and amortization | 528,778 | 2,935 | 507,136 | 2,799 |
| **Total operating expenses** | 8,317,156 | 9,011 | 7,963,684 | 8,610 |
| **Operating income (loss)** | (973,528) | (3,958) | (686,895) | 19,253 |
| **Nonoperating revenues (expenses)** | | | | |
| Tax appropriations | 496,000 | | 510,000 | |
| Investment income | 50,427 | 351 | 48,023 | 183 |
| Interest expense | (142,387) | | (140,752) | |
| SBA PPP loan forgiveness | | | 678,787 | |
| Noncapital grants and contributions | 18,626 | | 25,374 | |
| Noncapital COVID-19 grants | 337,496 | | 1,358,096 | |
| **Total nonoperating revenues** | 760,162 | 351 | 2,479,528 | 183 |
| **Excess of revenues over expenses (expenses over revenues) before capital grants and contributions** | (213,366) | (3,607) | 1,792,633 | 19,436 |
| **Capital grants and contributions** | | | 3,995 | |
| **Capital COVID-19 grants** | 299,614 | | 407,560 | |
| **Change in net position** | 86,248 | (3,607) | 2,204,188 | 19,436 |
| **Net position beginning of year** | 2,263,925 | 216,562 | 59,737 | 197,126 |
| **Net position end of year** | $ 2,350,173 | $ 212,955 | $ 2,263,925 | $ 216,562 |

The accompanying notes are an integral part of these statements.

**Lincoln County Hospital**
**Statements of Cash Flows**
**Years ended March 31, 2023 and 2022**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Hospital | Component unit | Hospital | Component unit |
| **Cash flows from operating activities** | | | | |
| Receipts from and on behalf of patients | $ 7,348,190 | $ - | $ 6,425,758 | $ - |
| Payments to or on behalf of employees | (3,853,047) | | (3,837,757) | |
| Payments for supplies and services | (4,003,837) | (6,076) | (3,707,194) | (5,811) |
| Other receipts and payments | 450,675 | 5,053 | (551,170) | 27,863 |
| **Net cash provided (used) by operating activities** | (58,019) | (1,023) | (1,670,363) | 22,052 |
| **Cash flows from noncapital financing activities** | | | | |
| Tax appropriations | 496,000 | | 510,000 | |
| Noncapital grants and contributions | (46,642) | | 143,162 | |
| COVID-19 grant advances received | | | 402,764 | |
| COVID-19 grant advances refunded | | | (1,346,512) | |
| **Net cash provided (used) by noncapital activities** | 449,358 | - | (290,586) | - |
| **Cash flows from capital and related financing activities** | | | | |
| Purchase of capital assets | (391,103) | | (421,765) | (18,689) |
| Proceeds from sale of equipment | | | 50,238 | |
| Capital grants and contributions | 299,614 | | 27,015 | |
| Principal paid on lease liabilities | (83,636) | | (117,378) | |
| Interest paid on lease liabilities | (24,161) | | (14,937) | |
| Principal paid on long-term debt obligations | (250,000) | | (250,000) | |
| Interest paid on long-term debt obligations | (117,450) | | (124,950) | |
| **Net cash used by capital and related financing activities** | (566,736) | - | (851,777) | (18,689) |
| **Cash flows from investing activities** | | | | |
| Change in certificates of deposit | | (7,150) | | 3,025 |
| Change in other investment | (31,077) | | | |
| Proceeds from other investments | 87,109 | | | |
| Investment income received | 50,427 | 351 | 38,879 | 183 |
| **Net cash provided (used) by investing activities** | 106,459 | (6,799) | 38,879 | 3,208 |
| **Change in cash and cash equivalents** | (68,938) | (7,822) | (2,773,847) | 6,571 |
| **Cash and cash equivalents at beginning of year** | 3,280,444 | 108,837 | 6,054,291 | 102,266 |
| **Cash and cash equivalents at end of year** | $ 3,211,506 | $ 101,015 | $ 3,280,444 | $ 108,837 |
| **Reconciliation of cash and cash equivalents** | | | | |
| Cash | $ 2,475,673 | $ 101,015 | $ 2,674,711 | $ 108,837 |
| Assets limited as to use | 735,833 | | 605,733 | |
| | $ 3,211,506 | $ 101,015 | $ 3,280,444 | $ 108,837 |

The accompanying notes are an integral part of these statements.

**Lincoln County Hospital**
**Statements of Cash Flows - Continued**
**Years ended March 31, 2023 and 2022**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Hospital | Component unit | Hospital | Component unit |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities** | | | | |
| Operating income (loss) | $ (973,528) | $ (3,958) | $ (686,895) | $ 19,253 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | | |
| Depreciation and amortization | 528,778 | 2,935 | 507,136 | 2,799 |
| Provision for bad debts | 176,065 | | 226,342 | |
| **Changes in** | | | | |
| Accounts receivable | 26,661 | | (202,073) | |
| Estimated third-party payor settlements | 289,585 | | (399,585) | |
| Other receivables | (37,074) | | 1,117 | |
| Inventories | 10,393 | | (56,546) | |
| Prepaid expenses and other | (3,208) | | 430 | |
| Medicare accelerated payments | | | (1,028,002) | |
| Accounts payable and accrued expenses | (75,691) | | (32,287) | |
| **Net cash provided (used) by operating activities** | $ (58,019) | $ (1,023) | $ (1,670,363) | $ 22,052 |
| **Noncash investing, capital, and financing activities** | | | | |
| Lease liabilities incurred | $ 37,500 | $ - | $ 176,681 | $ - |

The accompanying notes are an integral part of these statements.

# Lincoln County Hospital
# Notes to Financial Statements
# March 31, 2023 and 2022

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

1. Reporting entity

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

2. Component unit

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

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

3. Use of estimates

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

4. Basis of accounting

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

5. Cash and cash equivalents

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

6. Allowance for doubtful accounts

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

7. Inventories

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

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

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, and for debt service reserve; donor-restricted funds to be used for capital asset acquisitions; and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

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

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

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Other assets

The Hospital had a 3.4 percent equity interest in Community Holdings LLC, which provided stop-loss insurance coverage to the Hospital's partially self-funded health insurance plan (see Note O). The Hospital terminated its participation under this arrangement and in 2023, received a final distribution from its equity interest.

11. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an expense or expenditure in a future period.

12. Vacation benefits payable

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

13. Net position

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

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

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

14. Operating revenues and expenses

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

15. Net patient service revenue

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

16. Cost of borrowing

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

17. Grants and contributions

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

18. Restricted resources

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

19. Charity care

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

20. Income taxes

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

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

21. Adoption of accounting pronouncement

As of April 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "*Leases",* which establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. The standard requires recognition of certain assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. Adoption of this standard had no change on previously reported changes in net position. See Note R for additional disclosures of the effects of adopting this standard.

22. Subsequent events

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

**Note B - Net Patient Service Revenue**

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

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2021.

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

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

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

A summary of gross and net patient service revenue follows:

| | 2023 | 2022 |
|---|---|---|
| Gross patient service revenue | | |
| Inpatient | $ 1,934,494 | $ 2,940,297 |
| Outpatient | 3,742,267 | 3,997,022 |
| Physician services | 241,700 | 251,963 |
| Rural health clinic | 451,815 | 460,441 |
| | 6,370,276 | 7,649,723 |
| Third-party contractual adjustments | 693,771 | (583,475) |
| Charity care | (9,907) | (21,407) |
| Other discounts and allowances | (22,196) | (17,425) |
| Provision for bad debts | (176,065) | (226,342) |
| Net patient service revenue | $ 6,855,879 | $ 6,801,074 |

Revenue from the Medicare program accounted for approximately 77 percent of the Hospital's net patient service revenue during 2023 and 2022, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy for 2023 and 2022 were $9,907 and $21,407, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was $12,582 and $21,395 for 2023 and 2022, respectively.

**Note C - Allowance for Uncollectible Accounts**

The Hospital's allowance for uncollectible accounts on amounts due from patients was 75 percent and 65 percent of self-pay accounts receivable as of March 31, 2023 and 2022, respectively. The Hospital's net bad debt write-offs were $124,095 and $216,945 for the years ended March 31, 2023 and 2022, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2023 or 2022. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

**Note D - Deposits with Financial Institutions**

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

At March 31, 2023, the carrying amount of the Hospital's bank deposits were $2,904,014 and the bank balances were $3,081,968. Of the bank balances, $250,000 was covered by federal depository insurance and $2,831,968 was collateralized with securities held by a third-party bank.

### Note E - Assets Limited as to Use

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

| | 2023 | 2022 |
|---|---|---|
| Board of Trustee funds | $ 428,443 | $ 426,997 |
| Under bond agreements | 307,390 | 178,736 |
| Total assets limited as to use | $ 735,833 | $ 605,733 |

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

### Note F - Capital Assets

| | Balance March 31, 2022 | Transfers and additions | Retirements | Balance March 31, 2023 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 19,725 | $ - | $ - | $ 19,725 |
| Projects in progress | 23,020 | (20,272) | | 2,748 |
| Total capital assets not being depreciated | 42,745 | (20,272) | - | 22,473 |
| Capital assets being depreciated | | | | |
| Land improvements | 193,089 | | | 193,089 |
| Buildings | 2,171,741 | 167,721 | | 2,339,462 |
| Fixed equipment | 5,504,538 | 111,089 | | 5,615,627 |
| Movable equipment | 2,815,854 | 132,565 | | 2,948,419 |
| Total capital assets being depreciated | 10,685,222 | 411,375 | - | 11,096,597 |
| Less accumulated depreciation | | | | |
| Land improvements | 154,938 | 10,750 | | 165,687 |
| Buildings | 1,686,797 | 64,736 | | 1,751,533 |
| Fixed equipment | 3,897,017 | 240,513 | | 4,137,531 |
| Movable equipment | 2,286,158 | 133,733 | | 2,419,891 |
| Total accumulated depreciation | 8,024,910 | 449,732 | - | 8,474,642 |
| Total capital assets being depreciated, net | 2,660,312 | (38,357) | - | 2,621,955 |
| Leased assets being amortized | | | | |
| Leased equipment | 495,025 | 37,500 | | 532,525 |
| Less accumulated amortization | | | | |
| Leased equipment | 83,058 | 79,046 | | 162,104 |
| Total leased assets being amortized, net | 411,967 | (41,546) | - | 370,421 |
| Capital assets, net | $ 3,115,024 | $ (100,175) | $ - | $ 3,014,849 |

**Note F - Capital Assets - Continued**

| | Balance April 1, 2021 | Transfers and additions | Retirements | Balance March 31, 2022 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 19,725 | $ - | $ - | $ 19,725 |
| Projects in progress | | 23,020 | | 23,020 |
| Total capital assets not being depreciated | 19,725 | 23,020 | - | 42,745 |
| Capital assets being depreciated | | | | |
| Land improvements | 193,089 | | | 193,089 |
| Buildings | 2,171,741 | | | 2,171,741 |
| Fixed equipment | 5,494,798 | 9,740 | | 5,504,538 |
| Movable equipment | 2,735,218 | 389,006 | 308,370 | 2,815,854 |
| Total capital assets being depreciated | 10,594,846 | 398,746 | 308,370 | 10,685,222 |
| Less accumulated depreciation | | | | |
| Land improvements | 144,188 | 10,750 | | 154,938 |
| Buildings | 1,625,567 | 61,230 | | 1,686,797 |
| Fixed equipment | 3,659,691 | 237,326 | | 3,897,017 |
| Movable equipment | 2,462,788 | 131,740 | 308,370 | 2,286,158 |
| Total accumulated depreciation | 7,892,234 | 441,046 | 308,370 | 8,024,910 |
| Total capital assets being depreciated, net | 2,702,612 | (42,300) | - | 2,660,312 |
| Leased assets being amortized | | | | |
| Leased equipment | 441,376 | 388,563 | 334,914 | 495,025 |
| Less accumulated amortization | | | | |
| Leased equipment | 301,644 | 66,090 | 284,676 | 83,058 |
| Total leased assets being amortized, net | 139,732 | 322,473 | 50,238 | 411,967 |
| Capital assets, net | $ 2,862,069 | $ 303,193 | $ 50,238 | $ 3,115,024 |

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

**Note G - Long-Term Obligations**

Long-term obligations are summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 2.0% to 3.0%; issued on October 6, 2016; in the original amount of $5,330,000; due serially through March 1, 2035 | $ 3,665,000 | $ 3,915,000 |
| Add net unamortized premium of bonds | 126,901 | 146,776 |
| Less current maturities of long-term debt | (255,000) | (250,000) |
| Long-term debt, net of current maturities | $ 3,536,901 | $ 3,811,776 |

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

| | |
|---|---|
| Outstanding at April 1, 2021 | $ 4,165,000 |
| Principal payments | (250,000) |
| Outstanding at March 31, 2022 | 3,915,000 |
| Principal payments | (250,000) |
| Outstanding at March 31, 2023 | $ 3,665,000 |

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

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

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

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

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

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

| | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 255,000 | $ 109,950 | $ 364,950 |
| 2025 | 265,000 | 102,300 | 367,300 |
| 2026 | 270,000 | 94,350 | 364,350 |
| 2027 | 280,000 | 86,250 | 366,250 |
| 2028 | 290,000 | 77,850 | 367,850 |
| 2029-2033 | 1,595,000 | 252,300 | 1,847,300 |
| 2034-2035 | 710,000 | 32,100 | 742,100 |
| | $ 3,665,000 | $ 755,100 | $ 4,420,100 |

Total interest costs are summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Interest incurred | $ 140,986 | $ 139,261 |
| Amortization of bond premium | (19,875) | (21,151) |
| Amortization of deferred outflows on advanced refunding | 21,276 | 22,642 |
| Interest expense | $ 142,387 | $ 140,752 |

**Note H - Lease Liabilities**

Lease liabilities are summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Equipment lease liability; interest rate of 10.5%; payable in monthly installments of $802 through December 2027 | $ 35,885 | $ - |
| Equipment lease liability; interest rate of 7.2%; payable in monthly installments of $2,114 through August 2024 | 34,082 | 56,144 |
| Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,572 through November 2028 | 147,955 | 169,243 |
| Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $1,400 through November 2026 | 49,494 | 62,887 |
| Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,696 through November 2026 | 104,080 | 129,358 |
| | 371,496 | 417,632 |
| Less current maturities of leased liabilities | (93,503) | (101,895) |
| Leased liabilities, net of current maturities | $ 277,993 | $ 315,737 |

**Note H - Lease Liabilities - Continued**

The following is a summary of changes in the lease liabilities:

| | |
|---|---|
| Outstanding at April 1, 2021 | $ 146,445 |
| Lease liabilities incurred | 388,565 |
| Principal payments | (117,378) |
| Outstanding at March 31, 2022 | 417,632 |
| Lease liabilities incurred | 37,500 |
| Principal payments | (83,636) |
| Outstanding at March 31, 2023 | $ 371,496 |

Scheduled annual lease liability payments are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 93,504 | $ 21,510 | $ 115,014 |
| 2025 | 84,795 | 15,418 | 100,213 |
| 2026 | 79,330 | 10,311 | 89,641 |
| 2027 | 58,119 | 5,442 | 63,561 |
| 2028 | 35,628 | 2,455 | 38,083 |
| 2029 | 20,120 | 456 | 20,576 |
| | $ 371,496 | $ 55,592 | $ 427,088 |

**Note I - SBA PPP Loan Payable**

On April 7, 2020, the Hospital was granted a $678,787 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the federal government. On April 9, 2021, the Hospital received loan forgiveness of the entire loan amount plus accrued interest. The loan forgiveness was recognized as nonoperating income in the statement of revenues, expenses, and changes in net position for the year ended March 31, 2022.

**Note J - COVID-19 Grant Revenue**

COVID-19 grant revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds were used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. The rural health clinic testing grants were used to support coronavirus testing and related expenses in the rural health clinic. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. The Hospital has determined that the conditions have been met for recognizing revenue of $402,764 and $1,633,992 in 2023 and 2022, respectively. These amounts are included in nonoperating revenues and expenses as capital and noncapital

**Note J - COVID-19 Grant Revenue - Continued**

grants from COVID-19. The terms and conditions of the programs are complex and subject to interpretation and future reporting requirements. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term. The following table provides information about significant changes in unearned revenue for the year ended March 31:

| | 2023 | 2022 |
|---|---|---|
| Unearned revenue at beginning of year | $ 402,764 | $ 2,980,504 |
| HHS provider relief funds received | | 202,764 |
| HHS rural health clinic testing funds received | | 200,000 |
| HHS provider relief funds refunded to HHS | | (1,346,512) |
| Funds recognized as income during the year | (402,764) | (1,633,992) |
| Unearned revenue at end of year | $ - | $ 402,764 |

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

| | 2023 | 2022 |
|---|---|---|
| Provider relief funds | $ 202,764 | $ 1,525,925 |
| RHC testing funds | 200,000 | 98,923 |
| KDHE frontline healthcare workers | | 55,716 |
| Other | 234,346 | 85,092 |
| | $ 637,110 | $ 1,765,656 |

**Note K- Medicare Accelerated Payments**

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $1,028,002. Medicare recouped the payments by offsetting claim and settlement payments due to the Hospital for services rendered to Medicare beneficiaries. The full amount of the accelerated payments were recouped by March 31, 2022.

**Note L - Pension Plan**

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2023 and 2022, was $2,403,413 and $2,117,566, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first $7,800 of covered compensation plus 5 percent of the covered compensation exceeding $7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first $7,800 of covered compensation, plus 9 percent of the covered compensation exceeding $7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2023 and 2022, was $190,438 and $169,283, respectively.

**Note M - Concentration of Credit Risk**

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| Medicare | 33.5 | % | 52.0 | % |
| Medicaid | 3.5 | | 5.6 | |
| Blue Cross | 10.2 | | 9.7 | |
| Commercial insurance | 24.6 | | 19.7 | |
| Self-pay | 28.2 | | 13.0 | |
| | 100.0 | % | 100.0 | % |

**Note N - Risk Management**

For the years ended March 31, 2023 and 2022, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier. For the year ended March 31, 2023, the limits were $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. For the year ended March 31, 2022, the limits were $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy. For the year ended March 31, 2023, the Kansas Health Care Stabilization Fund limits were up to $500,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $1,500,000. For the year ended March 31, 2022, the Kansas Health Care Stabilization Fund limits were up to $800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2023, for the policy period from April 1, 2023 to April 1, 2024.

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

### Note O - Employee Health Insurance Claims

The Hospital partially self-insured health insurance claims of its employees through December 31, 2020. The Hospital reinsured a portion of its risk for such claims. The reinsurance arrangement covered annual claims in excess of $32,500 for each covered individual. Covered employees also provided part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital retained a third-party administrator to process and settle claims. The Hospital reimbursed the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The following is a summary of activity under this arrangement:

| | 2022 |
|---|---|
| Estimated employee health insurance claims payable at the beginning of the year | $ 46,741 |
| Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds | (19,391) |
| Payments made for claims and reinsurance, net of reinsurance recoveries | (27,350) |
| Estimated employee health insurance claims payable at the end of the year | $ - |

The Hospital had a 3.4 percent interest in Community Holdings LLC, which provided individual stop-loss coverage for incurred claims expense in excess of $32,500 for each covered individual. Effective January 1, 2021, the Hospital terminated participation in the partially self-insured health insurance plan and sponsored a fully insured health plan through a commercial insurance provider. The Hospital's equity interest in Community Holdings LLC terminated upon leaving the reinsurance arrangement. The Hospital received a final distribution of its equity interest of $87,109 during the year ended March 31, 2023.

### Note P - Related Party Transactions

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received $496,000 and $510,000 in tax appropriations from Lincoln County in 2023 and 2022, respectively. The Hospital also received $1,000 and $3,995 in contributions from the Foundation during 2023 and 2022, respectively.

**Note Q - Adoption of New Accounting Standard**

The Hospital adopted GASB Statement No. 87, *Leases* (GASB 87) based on the facts and circumstances as of April 1, 2021. The following changes were made to the 2022 amounts in adoption of GASB 87.

| | Amounts as previously reported | Adoption of accounting standard | Amount as restated |
|---|---|---|---|
| Hospital | | | |
| Statement of Net Position | | | |
| Assets and deferred outflows of resources | | | |
| Capital assets, net | $ 2,922,779 | $ 192,245 | $ 3,115,024 |
| Total assets | 7,446,482 | 192,245 | 7,638,727 |
| Total assets and deferred outflows | 7,603,607 | 192,245 | 7,795,852 |
| Liabilities and Net Position | | | |
| Current maturities of long-term obligations | 313,225 | (63,225) | 250,000 |
| Current maturities of lease liabilities | | 101,895 | 101,895 |
| Total current liabilities | 1,365,744 | 38,670 | 1,404,414 |
| Long-term obligations, less current maturities | 3,973,938 | (162,162) | 3,811,776 |
| Lease liabilities, net of current maturities | | 315,737 | 315,737 |
| Total long-term liabilities | 3,973,938 | 153,575 | 4,127,513 |
| Total liabilities | 5,339,682 | 192,245 | 5,531,927 |
| Total liabilities and net position | 7,603,607 | 192,245 | 7,795,852 |
| Statement of Revenues, Expenses, and Changes in Net Position | | | |
| Operating Expenses | | | |
| Supplies and other | 3,674,707 | (26,080) | 3,648,627 |
| Depreciation and amortization | 487,497 | 19,639 | 507,136 |
| Total operating expenses | 7,970,125 | (6,441) | 7,963,684 |
| Operating income (loss) | (693,336) | 6,441 | (686,895) |
| Nonoperating revenues (expenses) | | | |
| Interest expense | (134,311) | (6,441) | (140,752) |
| Total nonoperating revenues | 2,485,969 | (6,441) | 2,479,528 |
| Statement of Cash Flows | | | |
| Cash flows from operating activities | | | |
| Payments for supplies and services | (3,733,274) | 26,080 | (3,707,194) |
| Net cash provided (used) by operating activities | (1,696,443) | 26,080 | (1,670,363) |
| Cash flows from capital and related financing activities | | | |
| Principal paid on lease liabilities | | (117,378) | (117,378) |
| Interest paid on lease liabilities | | (14,937) | (14,937) |
| Principal paid on long-term debt obligations | (347,739) | 97,739 | (250,000) |
| Interest paid on long-term debt obligations | (133,446) | 8,496 | (124,950) |
| Net cash used by capital and related financing activities | (825,697) | (26,080) | (851,777) |

**Supplementary Information**

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

| | 2023 | | | 2022 |
|---|---|---|---|---|
| | Inpatient | Outpatient | Total | Total |
| Routine services | | | | |
| Adults and pediatrics | $ 1,266,550 | $ - | $ 1,266,550 | $ 1,995,200 |
| Ancillary services | | | | |
| Operating room | | | | 10,249 |
| Radiology, ultrasound, nuclear medicine and mammography | 53,699 | 354,789 | 408,488 | 504,382 |
| CT scan and MRI | 49,650 | 596,175 | 645,825 | 701,425 |
| Laboratory and blood | 185,760 | 1,174,712 | 1,360,472 | 1,317,654 |
| Physical therapy | 59,223 | 322,645 | 381,868 | 555,655 |
| Occupational therapy | 57,951 | 121,544 | 179,495 | 271,686 |
| Speech therapy | 1,723 | 6,204 | 7,927 | 10,370 |
| Electrocardiology | 5,083 | 66,681 | 71,764 | 68,295 |
| Medical supplies | 111,844 | 7,563 | 119,407 | 111,126 |
| Pharmacy | 131,142 | 311,422 | 442,564 | 533,781 |
| Emergency room | 9,499 | 622,915 | 632,414 | 657,084 |
| Treatment room | | 83,259 | 83,259 | 107,886 |
| Observation care | 2,370 | 74,358 | 76,728 | 92,526 |
| Clinic and physician | | 693,515 | 693,515 | 712,404 |
| | 667,944 | 4,435,782 | 5,103,726 | 5,654,523 |
| | $ 1,934,494 | $ 4,435,782 | 6,370,276 | 7,649,723 |
| Less | | | | |
| Contractual adjustments | | | 693,771 | (583,475) |
| Charity care | | | (9,907) | (21,407) |
| Administrative discounts | | | (22,196) | (17,425) |
| Provision for bad debts | | | (176,065) | (226,342) |
| Net patient service revenue | | | $ 6,855,879 | $ 6,801,074 |

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Salaries | Supplies and other, employee benefits, and depreciation | Total | Salaries | Supplies and other, employee benefits, and depreciation | Total |
| Routine services | | | | | | |
| Adults and pediatrics | $ 718,112 | $ 1,014,922 | $ 1,733,034 | $ 704,016 | $ 658,543 | $ 1,362,559 |
| Ancillary services | | | | | | |
| Operating room | | | | | 723 | 723 |
| Radiology, ultrasound, nuclear medicine, echocardiography, and mammography | 218,642 | 192,808 | 411,450 | 202,211 | 154,880 | 357,091 |
| CT scan and MRI | 5,562 | 83,575 | 89,137 | 9,392 | 68,859 | 78,251 |
| Laboratory and blood | 166,803 | 440,858 | 607,661 | 101,357 | 493,862 | 595,219 |
| Physical therapy | | 166,277 | 166,277 | | 224,926 | 224,926 |
| Occupational therapy | | 89,062 | 89,062 | | 111,458 | 111,458 |
| Speech therapy | | 13,504 | 13,504 | | 14,624 | 14,624 |
| Electrocardiology | 1,082 | 797 | 1,879 | 1,053 | 2,091 | 3,144 |
| Medical supplies | 38,629 | 43,179 | 81,808 | 33,277 | 32,896 | 66,173 |
| Pharmacy | 15,797 | 264,754 | 280,551 | | 305,902 | 305,902 |
| 340B drug program | | 350,742 | 350,742 | | 452,736 | 452,736 |
| Emergency room | 317,540 | 539,358 | 856,898 | 422,317 | 360,976 | 783,293 |
| Clinic and physician | 419,197 | 209,425 | 628,622 | 406,693 | 235,227 | 641,920 |
| Other | 5,328 | | 5,328 | 7,043 | | 7,043 |
| | 1,188,580 | 2,394,339 | 3,582,919 | 1,183,343 | 2,459,160 | 3,642,503 |
| General services | | | | | | |
| Administration and general | 58,882 | 315,610 | 374,492 | 145,288 | 318,980 | 464,268 |
| Accounting | 333,368 | 417,335 | 750,703 | 316,093 | 403,663 | 719,756 |
| Plant operations and maintenance | 66,793 | 251,417 | 318,210 | 60,522 | 242,556 | 303,078 |
| Laundry | 32,871 | 27,438 | 60,309 | 31,163 | 23,239 | 54,402 |
| Housekeeping | 71,174 | 43,772 | 114,946 | 65,490 | 41,090 | 106,580 |
| Dietary | 173,970 | 144,058 | 318,028 | 164,203 | 126,502 | 290,705 |
| Nursing administration | 74,183 | 20,007 | 94,190 | 76,198 | 23,320 | 99,518 |
| Medical records | 120,033 | 78,153 | 198,186 | 106,263 | 71,551 | 177,814 |
| Education and activities | 47,383 | 23,695 | 71,078 | 57,603 | 24,306 | 81,909 |
| Patient care coordination | 115,414 | 38,961 | 154,375 | 101,142 | 33,776 | 134,918 |
| Employee benefits - other | | 17,908 | 17,908 | | 18,538 | 18,538 |
| Depreciation and amortization | | 528,778 | 528,778 | | 507,136 | 507,136 |
| | 1,094,071 | 1,907,132 | 3,001,203 | 1,123,965 | 1,834,657 | 2,958,622 |
| | $ 3,000,763 | $ 5,316,393 | $ 8,317,156 | $ 3,011,324 | $ 4,952,360 | $ 7,963,684 |