HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Financial Statements and Schedules

Year Ended December 31, 2021

(Together With Independent Auditor's Report)

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

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Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Hodgeman County Health Center, a component unit of Hodgeman County, Kansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements which collectively comprise Hodgeman County Health Center's basic financial statements as listed in the table of contents.

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

The financial statements of Hodgeman County Health Center as of December 31, 2020 were audited by other auditors whose report dated April 4, 2022 expressed an unmodified opinion on those financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide*, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hodgeman County Health Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

(Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, the *Kansas Municipal Audit Guide*, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, the *Kansas Municipal Audit and Accounting Guide* and *Government Auditing Standards*, we:

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

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

(Continued)

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hodgeman County Health Center's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) (Schedule 1), 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 May 13, 2024, on our consideration of Hodgeman County Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hodgeman County Health Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hodgeman County Health Center's internal control over financial reporting and compliance.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
May 13, 2024

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Statement of Financial Position

December 31, 2021
(With Comparative Figures for 2020)

Assets	2021	2020
Current assets:		
Cash	$ 4,673,500	1,868,209
Restricted cash - COVID-19 funds	1,405,541	3,447,309
Patient accounts receivable, net of allowances for estimated uncollectibles of $741,404 in 2021 and $181,516 in 2020	636,822	1,213,895
Other receivables	245,339	32,136
Supplies	189,938	169,267
Prepaid expenses	69,967	74,577
Estimated third-party payor settlements	100,000	961,490
Total current assets	7,321,107	7,766,883
Certificates of deposit	-	76,903
Capital assets	11,060,814	10,017,506
Less accumulated depreciation	6,101,274	5,676,515
Net capital assets	4,959,540	4,340,991
	$ 12,280,647	12,184,777

See accompanying notes to financial statements.

Liabilities and Net Position	2021	2020
Current liabilities:		
Current maturities of long-term debt	$ 84,420	85,126
Accounts payable	349,538	407,491
Accrued expenses	430,280	380,743
Advanced grants - COVID-19 funds	1,405,541	3,447,309
Total current liabilities	2,269,779	4,320,669
Long-term debt, excluding current maturities	237,159	321,566
Total liabilities	2,506,938	4,642,235
Net position:		
Net investment in capital assets	4,637,961	3,934,299
Unrestricted	5,135,748	3,608,243
Total net position	9,773,709	7,542,542
	$ 12,280,647	12,184,777

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2021
(With Comparative Figures for 2020)

	2021	2020
Operating revenues:		
Net patient service revenue	$ 10,316,589	8,908,808
Provision for uncollectible accounts	(516,824)	40,967
Net patient and resident service revenue, less provision for bad debts	9,799,765	8,949,775
Bramley Place	155,228	157,946
340B drug program	290,359	283,416
Other revenue	95,885	97,843
Total operating revenues	10,341,237	9,488,980
Operating expenses:		
Salaries and wages	5,004,617	3,766,677
Employee benefits	943,747	747,761
Supplies and other	4,792,353	4,138,269
Depreciation	429,509	341,550
Total operating expenses	11,170,226	8,994,257
Operating income (loss)	(828,989)	494,723
Nonoperating revenues and expenses:		
Noncapital appropriations - Hodgeman County	25,000	338,700
Noncapital grants and contributions	365,871	135,029
Provider relief funds	2,075,536	168,201
Interest income	16,807	14,296
Interest expense	(14,981)	(17,566)
Gain on disposition of capital assets	1,500	-
Paycheck Protection Program (PPP) loan forgiveness	-	766,500
Total nonoperating revenues and expenses	2,469,733	1,405,160
Excess of revenues over expenses	1,640,744	1,899,883
Capital grants and contributions	168,650	-
Capital grants - provider relief funds	421,773	-
Increase in net position	2,231,167	1,899,883
Net position, beginning of year	7,542,542	5,642,659
Net position, end of year	$ 9,773,709	7,542,542

See accompanying notes to financial statements.

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Statement of Cash Flows

Year Ended December 31, 2021
(With Comparative Figures for 2020)

Increase in Cash	2021	2020
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 11,223,087	8,198,212
Payments to suppliers and contractors	(4,800,998)	(4,331,689)
Payments to employees	(5,898,827)	(4,596,451)
Other receipts, net	541,472	539,205
Net cash provided (used) by operating activities	1,064,734	(190,723)
Cash flows from noncapital financing activities:		
Noncapital appropriations - Hodgeman County	25,000	338,700
Noncapital grants and contributions received	284,264	135,029
Provider relief funds received	33,768	3,615,510
Proceeds from issuance of PPP loan	-	766,500
Net cash provided by noncapital financing activities	343,032	4,855,739
Cash flows from capital and related financing activities:		
Capital expenditures	(1,113,427)	(387,447)
Capital grants and contributions	474,068	-
Principal payments on long-term debt	(85,113)	(85,951)
Proceeds from sale of capital assets	1,500	-
Interest paid	(14,981)	(17,566)
Net cash used by capital and related financing activities	(737,953)	(490,964)
Cash flows from investing activities:		
Certificates of deposit redeemed	76,903	-
Interest income received	16,807	13,558
Net cash provided by investing activities	93,710	13,558
Net increase in cash and cash equivalents	763,523	4,187,610
Cash, beginning of year	5,315,518	1,127,908
Cash, end of year	$ 6,079,041	5,315,518
Reconciliation of cash to the statements of financial position:		
Cash	$ 4,673,500	1,868,209
Restricted cash - COVID-19 funds	1,405,541	3,447,309
	$ 6,079,041	5,315,518

(Continued)

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Statement of Cash Flows
(Continued)
Year Ended December 31, 2021
(With Comparative Figures for 2020)

Reconciliation of Operating Income or Loss to Net Cash Provided or Used by Operating Activities		2021	2020
Operating income (loss)	$	(828,989)	494,723
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation		429,509	341,550
Provision (credit) for uncollectible accounts		516,824	(40,967)
Changes in operating assets and labilities:			
Patient accounts receivable, net		60,249	(339,464)
Other receivables		(15,241)	(11,642)
Supplies		(20,671)	(59,608)
Prepaid expenses		4,610	(4,691)
Estimated third-party payor settlements		861,490	(359,490)
Accounts payable and payroll withholding		7,416	(129,121)
Accrued expenses		49,537	(82,013)
Net cash provided (used) by operating activities	$	1,064,734	(190,723)

Supplemental Disclosures of Cash Flows Information

		2021	2020
Capital asset additions acquired with capital lease obligations	$	-	18,819
Capital asset additions included in accounts payable	$	-	65,369
PPP loan forgiveness	$	-	766,500

See accompanying notes to financial statements.

HODGEMAN COUNTY HEALTH CENTER
A Component Unit of Hodgeman County, Kansas

Notes to Financial Statements
(With Comparative Information for 2020)

December 31, 2021

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the county commissioners. The Health Center consists of a hospital, long-term care unit, clinics and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

Basis of accounting and presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally tax appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as county appropriations, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

Cash equivalents

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2021 and 2020.

(Continued)

Certificates of deposit

Certificates of deposit are carried at amortized cost. Certificates of deposit with original maturities of less than one year are reported as current assets. Those with original maturities greater than one year are reported as long-term assets.

Patient accounts receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Health Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. For receivables associated with services provided to patients who have third-party coverage, the Health Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Supplies

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

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Capital assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of the donation, if acquired by gift. Major renewals and improvements are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the useful life of the respective assets are charged to expense as incurred. All capital assets other than land are depreciated or amortized over the estimated useful lives of the respective assets on the straight-line method. Capital assets under lease or subscription obligations are amortized on the straight-line method over the shorter period of the contract term or the estimated useful life of the capital asset. Amortization is included in depreciation and amortization in the financial statements. Useful lives are determined using the general guidelines set forth in the American Hospital Association Guide for Estimated Useful lives of Depreciable Hospital Assets. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized. The following estimated useful lives are being used by the Health Center:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years

Capital asset impairment

The Health Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Compensated absences

Health Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

(Continued)

Net position

Net position of the Health Center is classified in two components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Restricted resources

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

Risk management

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

Paycheck Protection Program (PPP) loan

The Health Center received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustments could be required to any revenue recognized. The Health Center received legal notice on November 2, 2020 that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

(Continued)

Net patient service revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity care

The Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The costs of charity care provided under the Health Center's charity care policy was approximately $31,500 and $30,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Noncapital appropriations – Hodgeman County

The Health Center received less than 1% in 2021 and approximately 3% in 2020 of its financial support from the proceeds on noncapital appropriations from Hodgeman County. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by the County and shared with the Health Center for operational purposes. Taxes are assessed by the County in November of one year and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted net position balances.

(Continued)

Provider Relief Funds (*CARES Act)*

On March 27, 2020, the *CARES Act* was signed into law as part of the government's response to the spread of the SARS-CoV-2 and the incidence of COVID-19. The CARES *Act* contained provisions for certain health care providers to receive Provider Relief Funds (PRF) from the U.S. Department of Health and Human Services (HHS). The distributions from the Provider Relief Funds are not subject to repayment, provided the Health Center is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS. The Health Center is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as advanced grants in the accompanying balance sheets.

Income taxes

As an essential government function of the County, the Health Center is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

(2) Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Health Center is designated as a Critical Access Hospital which generally allows cost-based reimbursement for most Medicare hospital services. Inpatient acute, inpatient nonacute (swing-bed), and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services, reimbursed under a prospectively determined fee-schedule. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Health Center's Medicare cost reports have been audited by the MAC through December 31, 2019.

(Continued)

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

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

Approximately 75% and 67% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

(3) COVID-19 Provider Relief Funds and Other COVID-19 Programs

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

(Continued)

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various Provider Relief Funds to distribute funds to health care providers. The Health Center received Provider Relief Fund distributions of $455,541 and $3,615,510 during the years ended December 31, 2021 and 2020, respectively. The terms and conditions associated with accepting the Provider Relief Funds can vary based on the specific distribution received. The majority of the funds received by the Health Center specifically state they can only be used to prevent, prepare for, and respond to coronavirus healthcare-related expenses or for lost revenues that are attributable to the coronavirus. Recipients are required to file reports with HHS regarding the use of these funds for eligible purposes. Any unused funds are required to be returned to HHS.

The Health Center considers the receipt of the funds a voluntary nonexchange transaction and recorded the amounts received as Advanced grants – COVID-19 funds (liability). The liability is being derecognized and nonoperating revenue recognized as Provider Relief Funds, or as Provider Relief Funds – Capital, if used to purchase capital assets, as the terms and conditions are determined to be substantially met by the Health Center. The Health Center believes it has met certain terms and conditions during the applicable reporting periods and therefore recognized $2,497,309 and $168,201 for the years ended December 31, 2021 and 2020, respectively. The remaining funds are being reported as a current liability, Advanced grants – COVID-19 funds.

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

The Health Center also received grant funds from the State of Kansas and other organizations totaling $263,106 and $133,429 during the years ended December 31, 2021 and 2020, respectively, to use for COVID-19 related expenses. Additional grants were awarded during 2021 to use towards COVID-19 expenses of which $194,137 of expenses were incurred in 2021 and therefore have been recorded as a receivable at December 31, 2021. The Health Center recognized $457,243 and $133,429 for the years ended December 31, 2021 and 2020, respectively, due to meeting the terms and conditions associated with these portions of the funds and has recognized the amounts as either noncapital grants and contributions or capital grants and contributions as applicable.

(Continued)

(4) Deposits

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kansas; bonds of any city, county, school district or special road district of the State of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2021 and 2020, $5,733,238 and $5,039,238, respectively, of the Health Center's bank balances of $6,157,154 and $5,350,395, respectively, were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution	$ 5,733,238	5,039,238

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	2021	2020
Carrying value:		
Deposits	$ 6,078,341	5,391,721
Petty cash	700	700
	$ 6,079,041	5,392,421
Included in the following balance sheet captions:		
Cash	$ 4,673,500	1,868,209
Restricted cash	1,405,541	3,447,309
Certificates of deposit	-	76,903
	$ 6,079,041	5,392,421

(Continued)

(5) Patient Accounts Receivable

The Health Center grants credit without collateral to its patients, most of whom are local area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2021	2020
Medicare	$ 439,285	620,405
Medicaid	6,572	4,286
Blue Cross	51,211	86,100
Other third-party payers	169,077	178,366
Self-pay	712,081	506,254
	1,378,226	1,395,411
Less allowance for uncollectible accounts	(741,404)	(181,516)
Net patient and resident accounts receivable	$ 636,822	1,213,895

(6) Loan Contract Guarantees

In conjunction with the Health Center's patient accounts receivable collection program, the Health Center was contingently liable on loan contracts patients had entered into with local financial institutions for payment of patient accounts receivable which the Health Center has guaranteed with full recourse. The loan contracts totaled $111,268 at December 31, 2021. Allowances for estimated losses under such guarantees are included in allowances for doubtful accounts and contractual adjustments.

(Continued)

(7) Capital Assets

The following is a summary of capital assets activity for the years ended December 31:

	2020	Additions	Transfers/ Retirements	2021
Land improvements	$ 217,248	-	-	217,248
Buildings	7,234,586	-	17,533	7,252,119
Fixed equipment	865,813	63,488	112,427	1,041,728
Moveable equipment	1,687,829	219,990	310,548	2,218,367
Construction in progress	12,030	764,580	(445,258)	331,352
	10,017,506	1,048,058	(4,750)	11,060,814
Less accumulated depreciation				
Land improvements	(72,167)	(14,766)	-	(86,933)
Buildings	(3,892,807)	(193,633)	-	(4,086,440)
Fixed equipment	(476,696)	(70,019)	-	(546,715)
Moveable equipment	(1,234,845)	(151,091)	4,750	(1,381,186)
	(5,676,515)	(429,509)	4,750	(6,101,274)
Capital assets, net	$ 4,340,991	618,549	-	4,959,540

	2019	Additions	Transfers/ Retirements	2020
Land improvements	$ 90,063	127,185	-	217,248
Buildings	7,192,446	42,140	-	7,234,586
Fixed equipment	835,618	30,195	-	865,813
Moveable equipment	1,427,744	260,085	-	1,687,829
Construction in progress	-	12,030	-	12,030
	9,545,871	471,635	-	10,017,506
Less accumulated depreciation				
Land improvements	(66,742)	(5,425)	-	(72,167)
Buildings	(3,702,569)	(190,238)	-	(3,892,807)
Fixed equipment	(415,785)	(60,911)	-	(476,696)
Moveable equipment	(1,149,869)	(84,976)	-	(1,234,845)
	(5,334,965)	(341,550)	-	(5,676,515)
Capital assets, net	$ 4,210,906	130,085	-	4,340,991

(Continued)

Construction in progress costs at December 31, 2021 consists of various projects. Estimated costs of $61,469 remain on the projects and they are expected to be completed and placed in service in 2022. There were no significant contractual commitments to contractors as of December 31, 2021 associated with the projects.

(8) Long-term Debt

The following is a summary of long-term obligation transactions for the Health Center for the years ended December 31:

	2020	Additions	Reductions	2021	Current Portion
Long-term debt, capital lease obligations	$ 406,692	-	(85,113)	321,579	84,420

	2019	Additions	Reductions	2020	Current Portion
Long-term debt:					
PPP loan payable	$ -	766,500	(766,500)	-	-
Capital lease obligations	473,824	18,819	(85,951)	406,692	85,126
Total long-term debt obligations	$ 473,824	785,319	(852,451)	406,692	85,126

Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation also provides a SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Health Center received a PPP loan of $766,500 in 2020. The Health Center received legal notice on November 2, 2020 that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statement of revenues, expenses and changes in net position.

(Continued)

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2021 and 2020 follows:

	2021	2020
Moveable equipment	$ 528,414	528,414
Less accumulated depreciation	(202,633)	(118,928)
	$ 325,781	409,486

The following is a schedule by year of future minimum lease payables under the capital leases including interest rates of 3.02% to 7.92% together with the present value of the future minimum lease payments as of December 31, 2021:

Year Ending December 31,	
2022	$ 96,025
2023	96,025
2024	80,904
2025	74,812
Total minimum lease payments	347,766
Less amount representing interest	(26,187)
Present value of future minimum lease payments	$ 321,579

(9) Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides $200,000 of coverage for each medical incident and $600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $800,000 of coverage for each medical incident and $2,400,000 of aggregate coverage for each policy year.

(Continued)

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

(10) Pension Plans

Defined Contribution Plan

The Health Center contributes to a defined contribution plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Health Center's governing body. If an employee authorizes the Health Center to make a salary reduction contribution on their behalf to the deferred compensation plan noted below, the Health Center will make a contribution to the defined contribution plan equal to 100% of the employee's contribution. Only salary deferral contributions up to 6% of an employee's compensation are eligible to be matched. Contributions actually made by the Health Center were $146,767 for 2021 and $101,767 for 2020. Employees do not contribute to the defined contribution pension plan.

Deferred Compensation Plan

The Health Center provides a deferred compensation plan (457 Plan) to substantially all employees of the Health Center. The employees may contribute up to 100% of their salary to the 457 Plan. The employees' salary deferral is limited by the Internal Revenue Service annually. Employees are 100% vested in the contributions they choose to defer. Contributions from employees to the 457 Plan were $281,778 and $213,153 for the years ended December 31, 2021 and 2020, respectively. The Health Center does not contribute to the 457 Plan.

(Continued)

(11) 340B Drug Pricing Program Insurance

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of $290,359 and $283,416 for the years ended December 31, 2021 and 2020, respectively. The Health Center recorded expenses related to the 340B Program of $131,572 and $69,596 for the years ended December 31, 2021 and 2020, respectively, which is included in supplies and other in the accompanying statement of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Service Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing is compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

(12) Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in note 9.

Litigation

In the normal course of business, the Health Center is, from time to time, subject to allocations that may or do result in litigation. The Health Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

HODGEMAN COUNTY HEALTH CENTER

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
United States Department of Health and Human Services:			
Direct Awards:			
COVID-19 Provider Relief Fund	93.498	N/A	$ 3,526,739
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A	98,923
COVID-19 Claims Reimbursement for the Uninsured and the COVID-19 Coverage Assistance Fund	93.461	N/A	10,315
Total			3,635,977
Passed Through to the State of Kansas Department of Health and Environment:			
COVID-19 Coronavirus Small Rural Hospital Improvement Program	93.301	N/A	257,750
Small Rural Hospital Improvement Program	93.301	N/A	14,206
			271,956
Total United States Department of Health and Human Services			3,907,933
United States Department of the Treasury:			
Passed Through to the State of Kansas Department of Health and Environment:			
SPARK Frontline Hospital Employee Retention Program	21.027	N/A	99,493
United States Department of Transportation:			
Passed Through to the State of Kansas Department of Transportation:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	KS2019008	52,295
Total Expenditures of Federal Awards			$ 4,059,721

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

* * * * * *

(Continued)

HODGEMAN COUNTY HEALTH CENTER

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

A. Basis of Presentation

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

B. Summary of Significant Accounting Policies

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

C. Provider Relief Fund Reporting

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

(Continued)

HODGEMAN COUNTY HEALTH CENTER

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

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

COVID-19 Provider Relief Fund	$ 3,526,739
COVID-19 Testing and Mitigation for Rural Health Clinics	98,923
Total PRF included in the Expenditures of Federal Awards	$ 3,625,662
Amounts reflected in the audited financial statements, in the Statement of Revenues, Expenses and Changes in Net Position:	
Provider relief funds FY2020	$ 168,201
Provider relief funds FY2021	2,075,536
Capital grants – provider relief funds FY2021	421,773
Investment income - provider relief funds FY2020 and FY2021	10,152
Reserved	950,000
	$ 3,625,662

D. Indirect Cost Rate

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

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

To the Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hodgeman County Health Center (the Health Center) as of and for the year ended December 31, 2021, and the related notes to the financial statements which collectively comprise the Health Center's basic financial statements, and have issued our report thereon dated May 13, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-003 to be material weaknesses.

(Continued)

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-004 to be a significant deficiency.

* * * * * *

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The Health Center's Responses to Findings

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

* * * * * *

Other Reporting and Operating Comments

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

NEW ACCOUNTING STANDARDS

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

(Continued)

GASB Statement No. 87 – *Leases*

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

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

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

FRAUD RISK ASSESSMENT

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

ACCOUNTING MANUAL

Currently, the Health Center does not have written accounting procedures covering all operating areas. Considering the increased complexity of accounting functions and the possibility of turn-over of accounting personnel, we recommend preparation of an accounting manual which should include, among other things, an up-to-date chart of accounts, adequate explanations of account content, and appropriate descriptions of all accounting procedures and routines. Thereafter, any changes in the system or procedures would require a written revision of the manual and would be subject to approval by management.

(Continued)

CAPITALIZATION POLICY

The Health Center does not have a written policy covering capitalization of capital assets. Having an established policy sets clear limits on what is depreciated versus what is expensed. This allows for consistency both from year to year and throughout given periods to ensure the same policy is followed to record all items properly and similarly.

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 Health Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
May 13, 2024

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

To the Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas:

Report on Compliance for Each Major Federal Program

Adverse Opinion on Each Major Federal Program

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

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the Health Center did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Adverse Opinion on Each Major Federal Program

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

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

(Continued)

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Matters Giving Rise to Adverse Opinion Major Federal Program

As described in the accompanying schedule of findings and questioned costs, the Health Center did not comply with the requirements regarding Federal Assistance Listing #93.498, Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution as described in findings 2021-005 and 2021-006 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting. Compliance with such requirements is necessary, in our opinion, for the Health Center to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Health Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Health Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over compliance. Accordingly, no such opinion is expressed.

(Continued)

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings 2021-005 and 2021-006. As previously described, our opinion on the major federal program was modified to an adverse opinion with respect to these matters.

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

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 on the previous page and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of findings and questioned costs as items 2021-005 to 2021-008 to be material weaknesses.

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 the Health Center's responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Health Center's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

(Continued)

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

Purpose of this Report

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



Aurora, Nebraska
May 13, 2024

HODGEMAN COUNTY HEALTH CENTER

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with U.S. GAAP:	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiency(ies) identified?	X Yes ___ None reported
Noncompliance material to financial statements noted?	___ Yes X No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	X Yes ___ No
Significant deficiency(ies) identified?	___ Yes X None reported
Type of auditor's report issued on compliance for major programs:	Adverse Opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	X Yes ___ No

Identification of major programs:

Program Name	CFDA
COVID-19 Provider Relief Fund	93.498

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

(Continued)

SECTION II - FINDINGS - FINANCIAL STATEMENT AUDIT

FINDING 2021-001 ADJUSTING JOURNAL ENTRIES - MATERIAL WEAKNESS

Criteria

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

Condition

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

Cause

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

Effect and recommendation

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

Views of responsible officials and planned corrective actions

Management agrees with this finding and will review its current internal control processes over financial reporting to ensure proper reconciliation of account balances to avoid future significant adjustment being required.

FINDING 2021-002 GAAP FINANCIAL STATEMENT PREPARATION - MATERIAL WEAKNESS

Criteria

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

Condition

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

Cause

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

(Continued)

Effect and recommendation

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

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue developing its staff's financial accounting and reporting knowledge.

FINDING 2021-003 THIRD-PARTY PAYOR ESTIMATES - MATERIAL WEAKNESS

Criteria

Preparation of estimates for third-party payor reimbursement settlement calculations should be done on a monthly basis to ensure more reliable financial statement information throughout the year.

Condition

The Health Center does not have a process in place for estimating third-party payor settlements on a monthly basis.

Cause

Limited personnel available with detail cost reporting knowledge and available time to prepare each month.

Effect and recommendation

A significant audit adjusting journal entry was required at year-end. We recommend the Health Center implement a monthly process to compute the year-to-date estimated Medicare settlement amounts and formalize a process to reconcile and adjust third-party payor accounts on a monthly basis. Monthly preparation of such a calculation will provide Health Center management and the Board with more accurate and timely financial information each month to use for decision making.

Views of responsible officials and planned corrective actions

Management will work towards developing a process to perform Medicare cost report estimates during its fiscal year.

FINDING 2021-004 SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY

Criteria

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

Condition

Not all major accounting areas have complete segregation of duties.

Cause

The Health Center has limited personnel available to completely segregate all duties.

(Continued)

Effect and recommendations

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

- Accounts receivable (AR) and cash receipts processing
  - Although an outside entity generally performs all AR payment postings, Health Center personnel who physically handle or have access to cash receipts also have access to post payments.
  - Questions regarding AR statements are directed to personnel involved with the cash receipt process.
  - Personnel who open the mail and who receive cash payments at the front office are part of the cash receipts process and are either directly involved with posting payments to the AR subsidiary ledger or have the ability to post payments to the AR subsidiary ledger. These same personnel also have the ability to record AR contractual adjustments, as well as bad debt and charity care write-offs.
  - There is no subsequent review of patient account write-offs by someone independent of the AR process to verify that only appropriately authorized write-offs are occurring.
- Accounts payable (AP) and cash disbursement processing
  - Signed checks are given back to the check preparer for mailing.
  - Purchase orders and invoices should be compared for accuracy by an individual separate from purchasing before checks are prepared.
- Payroll processing
  - Personnel involved with payroll approvals is also involved with and has access to payroll processing.
  - Approval of time and attendance by department managers should be formally documented.
  - Review of approved payroll disbursement with what was actually withdrawn from cash is not being done by someone independent of payroll processing.
- Purchasing and inventory process
  - Personnel in central supply and other departments involved with purchasing also control the receiving and disbursing of inventory items as well as the periodic counting of inventory.

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

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

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

(Continued)

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue exploring ways to improve our processes with our staff limitations. Due to our limited personnel, it will be a challenge to apply necessary job duties to existing job descriptions without increasing control risks in other parts of the process.

SECTION III - FINDINGS - AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2021-005

Federal program

Federal Assistance Listing Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution

Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting

Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria

The terms and conditions of the CARES Act provider relief fund state the expenses reported need to be for costs incurred to prevent, prepare for, and/or respond to coronavirus during the reporting period.

Condition

Management appears to have misinterpreted provider relief fund reporting guidance resulting in certain costs being included as allowable during its June 30, 2021 reporting period.

Cause

Management's interpretation of the reporting guidance was that certain direct patient care costs of the Health Center, excluding costs reimbursed by others, could be included as allowable costs for provider relief fund reporting.

Effect

Management included amounts in the PRF reporting portal which do not appear to be eligible based on the terms and conditions of the PRF distributions.

(Continued)

Questioned costs

Management provided excel workbooks totaling $3,810,750 in allowable PRF expenses and reported total expenses of $3,526,740 in the PRF reporting form, which equals the amount of PRF funds received for period 1. Additionally, as further described in Finding 2021-006, there were several individual expense reporting categories where the Health Center's excel workbook of costs did not match to the reporting expense categories. We performed our testing on the amounts provided in the excel workbook totaling $3,810,750. During our testing, we noted the following amounts as questioned costs:

Personnel:

Based on our review of existing guidance, we are questioning $285,248 of costs as they relate to providing direct patient care and were not specifically identified as services provided to COVID-19 patients. The questioned costs were determined based off of detail testing and review of the underlying supporting detail workbook used by management to accumulate cost reported in the PRF reporting portal.

Fringe Benefits:

Based on our review of existing guidance, we are questioning $410,321 of costs as they relate to fringe benefits associated with salaries and wages either not claimed as COVID-19 and/or related to salaries and wages noted in the preceding section as not specifically identified as services provided to COVID-19 patients. The questioned costs were determined based off of detail testing and review of the underlying supporting detail workbook used by management to accumulate cost reported in the PRF reporting portal.

Supplies:

Based on our review of existing guidance, we are questioning $215,567 of costs as the Health Center could not provide support specifically identifying the costs as used to treat COVID-19 patients. The questioned costs were determined based off of detail testing and review of the underlying supporting detail workbook used by management to accumulate cost reported in the PRF reporting portal.

Perspective/Context

The errors appear to be due to management's interpretation that certain direct patient care costs, excluding costs reimbursed by others, could be reported as allowable during the June 30, 2021 reporting period.

Recommendation

We suggest Health Center management contact HRSA to determine a corrective action regarding the potential costs reported that may not be allowable.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding. The Health Center does have amounts that could have been reported as lost revenues that would cover some of the questioned costs. The Health Center was unable to include the lost revenue amounts in the original submission because the website did not allow submission of lost revenues if enough costs were reported to cover the PRF funds received.

(Continued)

FINDING 2021-006 INTERNAL CONTROLS OVER COMPLETION OF PROVIDER RELIEF FUND REPORTING

Federal program

Federal Assistance Listing Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution

Material Weakness in Internal Control over Compliance

Criteria

The Health Center should have sufficient internal controls over PRF reporting to assure amounts reported as allowable costs under the PRF program (FAL 93.498) are concurrently documented and match to individual reported categories of allowable costs. Additionally, the Health Center should have processes in place to assure all other data elements required to be reported are reviewed and accurately reported as required.

Conditions

Management provided excel workbooks of costs they determined allowable under the PRF program. Although the workbook totals for some cost reporting categories did match the PRF reporting form, there were several categories that did not. Other reporting errors were also noted during our testing of the PRF reporting document. Errors specifically noted were as follows:

Single Audit Information Section of PRF Reporting Form:

Fiscal years 2019 and 2020 were marked as “yes” subject to Audit (45 CRF 75 Subpart F) when this was true only for fiscal year 2021.

Other Assistance Section of PRF Reporting Form:

Rural Health Clinic COVID-19 Testing funds of $98,923 received in Q2 of 2020 and $100,000 in Q2 of 2021 should have been reported in this section.

Other Provider Relief Fund Payments: April 10, 2020 to June 30, 2020 Payment Period - Other PRF Expenses Section of PRF Reporting Form:

Mortgage/Rent

PRF reporting form reported costs of $9,675 when the Health Center’s supporting detail excel workbook provided showed $10,970.

Personnel

PRF reporting form reported costs of $2,173,435 when the Health Center’s supporting detail excel workbook provided showed $1,744,254.

Fringe Benefits

PRF reporting form reported costs of $478,410 when the Health Center’s supporting detail excel workbook provided showed $624,322.

(Continued)

Lease Payments

PRF reporting form reported costs of $0 when the Health Center's supporting detail excel workbook provided showed $71,673.

Supplies

PRF reporting form reported costs of $476,714 when the Health Center's supporting detail excel workbook provided showed $315,593.

Equipment

PRF reporting form reported costs of $128,046 when the Health Center's supporting detail excel workbook provided showed $488,244.

Facilities

PRF reporting form reported costs of $75,943 when the Health Center's supporting detail excel workbook provided showed $100,598.

Other Health Care Expenses

PRF reporting form reported costs of $0 when the Health Center's supporting detail excel workbook provided showed $215,683.

Unreimbursed Expenses Attributable to Coronavirus Section of PRF Reporting Form:

Health Center reported for general and administrative expenses and healthcare related expenses the same line item totals as reported in the Other Provider Relief Fund Payments.

Patient Care Revenue Section of PRF Reporting Form:

The Health Center was unable to provide us with a reconciliation of its 2019 and 2020 calendar year financial statement revenues that agreed with the amounts reported in the PRF form as 2019 and 2020 actual calendar year revenue.

Personnel, Patient and Facility Metrics Section of PRF Reporting Form:

The Health Center's provided internal data for personnel and facility metrics did not match with what was reported in the PRF reporting form.

Cause

The Health Center did not have sufficient internal controls over the PRF reporting process to assure all required reporting data, including appropriate tracking of costs and correct final reporting by cost category, was accurately reported in the PRF reporting form.

Effect and recommendation

We suggest the Health Center review its current processes associated with PRF fund reporting and filing requirements to assure all information is accurately reported.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding and although we have limited personnel, we will continue to monitor and enhance our internal controls over the completion of provider relief fund reporting.

FINDING 2021-007 INTERNAL CONTROLS OVER COMPLETION OF SCHEDULE OF FEDERAL EXPENDITURES - MATERIAL WEAKNESS

Criteria

Management should have a process in place to ensure the internal completion of the Schedule of Federal Expenditures (SEFA) including all required disclosures.

Condition

Management required significant assistance from the external auditors to complete the SEFA.

Cause

The Health Center had limited personnel with the appropriate experience levels to complete the SEFA without assistance.

Effect and recommendation

Management required assistance from the auditors to accurately complete the SEFA. We recommend management review its current internal controls over completion of the SEFA to ensure it can be completed with limited assistance provided by its external auditors.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding and although we have limited personnel, we will continue to monitor and enhance our internal controls over the completion of the SEFA.

FINDING 2021-008 INTERNAL CONTROLS OVER COMPLETION AND TIMELY FILING OF SINGLE AUDIT REPORTS

Criteria

The Health Center should have sufficient internal controls to assure the completion and timely filing of its financial statement and compliance audits.

Condition

The Health Center's financial statement and compliance audits for the December 31, 2021 reporting period were not filed within the required timeline.

Cause

The Health Center had various issues that delayed the completion of its financial statement and compliance audits.

Effect and recommendation

We suggest the Health Center review its current accounting processes to assure the financial statement and compliance audits can be completed and filed on a timely basis as required.

Views of responsible officials and planned corrective actions

Management agrees with the noted finding and although we have limited personnel, we will continue to monitor and enhance our internal controls to assure all future reporting timelines are met.

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May 13, 2024

CORRECTIVE ACTION PLAN

The Hospital respectfully submits the following corrective action plan for the year ended December 31, 2021.

Name and address of the independent accounting firm:

Dohman, Akerlund, & Eddy, LLC
PO Box 470
Aurora, NE 68818

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

The findings from the 2021 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II Findings - Financial Statement Audit

FINDING 2021-001

Condition

Audit adjustments were required to appropriately state the Health Center's year-end financial statements. The auditors recommended we review our current accounting processes and implement appropriate procedures to ensure all controlling general ledger accounts are reconciled at the end of each month and adjusted as necessary to avoid future audit adjustments being required.

Views of responsible officials and planned corrective actions

Management will review its current internal control processes over financial reporting to ensure proper reconciliation of account balances to avoid future significant adjustment being required.

Anticipated completion date

Ongoing

O'SHEA MEMORIAL CLINIC PHONE: 620-357-8354
www.hchconline.org

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FINDING 2021-002

Condition

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

Views of responsible officials and planned corrective actions

Management will continue developing its staff's financial accounting and reporting knowledge.

Anticipated completion date

Ongoing

FINDING 2021-003

Condition

The Health Center does not have a process in place for estimating third-party payor settlements on a monthly basis.

Views of responsible officials and planned corrective actions

Management will work towards developing a process to perform Medicare cost report estimates during its fiscal year.

Anticipated completion date

Ongoing

FINDING 2021-004

Condition

Not all major accounting areas have complete segregation of duties.

Views of responsible officials and planned corrective actions

Management agrees with this finding and will continue exploring ways to improve our processes with our staff limitations. Due to our limited personnel, it will be a challenge to apply necessary job duties to existing job descriptions without increasing control risks in other parts of the process.

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Anticipated completion date

Ongoing

Section III Findings – Major Federal Awards Programs Audit

FINDING 2021-005

Condition

Supporting expense workbooks provided by management did not agree with certain amounts reported in the PRF portal reporting form. Additionally, certain expenses reported were related to direct patient care costs and management was unable to provide sufficient supporting documentation the amounts were related to providing care to COVID-19 patients. This resulted in the auditors reporting total questioned costs of $911,136.

Views of responsible officials and planned corrective actions

Management does not agree with the noted finding. The Health Center feels as though costs incurred did qualify under the provision of being prepared and treating COVID positive, and suspected COVID patients. The Health Center does have amounts that could have been reported as lost revenues that would cover some of the questioned costs. The Health Center was unable to include the lost revenue amounts in the original submission because the website did not allow submission of lost revenues if enough costs were reported to cover the PRF funds received.

Anticipated completion date

Ongoing

FINDING 2021-006

Condition

Management provided excel workbooks of costs they determined allowable under the PRF program. Although the workbook totals for some cost reporting categories did match the PRF reporting form, there were several categories that did not. Other reporting errors were also noted on the PRF portal reporting document.

Views of responsible officials and planned corrective actions

We will review our current reporting processes and internal controls over PRF reporting to ensure all future reporting requirements are met.

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Anticipated completion date

Ongoing

FINDING 2021-007

Condition

Management should have a process in place to ensure the internal completion of the schedule of federal expenditures (SEFA) including all required disclosures.

Views of responsible officials and planned corrective actions

We will continue to monitor and, although we have limited personnel, we will continue to enhance our internal controls over the completion of the SEFA.

Anticipated completion date

Ongoing

FINDING 2021-008

Condition

The Health Center's financial statement and compliance audits for the December 31, 2021 reporting period were not filed within the required timeline.

Views of responsible officials and planned corrective actions

Management will continue to monitor and enhance our internal controls to assure all future reporting timelines are met.

Anticipated completion date

Ongoing

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For any questions regarding this plan, please call Sidni Durler or Stacey Briggs at 620-357-8361.

Sincerely,
Hodgeman County Health Center

Sidni Durler
CFO

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