

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Financial Statements

Years Ended December 31, 2019 and 2018

(Together With Independent Auditor's Report)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Index

Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jewell County Hospital
Mankato, Kansas:

Report on the Financial Statements

We have audited the accompanying statements of financial position of Jewell County Hospital, a component unit of Jewell County, Kansas, as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise Jewell County Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jewell County Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Component Unit Reporting

As discussed in note 1, the financial statements present only the financial information of Jewell County Hospital and do not purport to, and do not, present fairly the financial position of Jewell County as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Jewell County Hospital 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.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards (Schedule 1) is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020 on our consideration of Jewell County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Jewell County Hospital's internal control over financial reporting and compliance.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
September 28, 2020

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Financial Position

December 31, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 227,262	256,690
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of \$214,282 in 2019 and \$67,823 in 2018	464,276	522,375
Other receivables	-	6,794
Supply inventories	33,662	36,206
Prepaid expenses	30,489	25,439
Estimated third-party payor settlements	<u>215,000</u>	<u>446,142</u>
Total current assets	<u>970,689</u>	<u>1,293,646</u>
Assets whose use is limited or restricted:		
Internally designated:		
Farmland	184,232	184,232
Board account - cash	766,985	291,523
Property taxes held by Jewell County Treasurer	245,378	217,746
Restricted by donors or grantors - cash	-	38,139
Held by trustee - construction funds	<u>71</u>	<u>362,828</u>
Total assets whose use is limited or restricted	<u>1,196,666</u>	<u>1,094,468</u>
Capital assets	6,071,588	3,238,756
Less accumulated depreciation	<u>2,585,468</u>	<u>2,457,437</u>
Net capital assets	<u>3,486,120</u>	<u>781,319</u>
	<u>\$ 5,653,475</u>	<u>3,169,433</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current maturities of capital lease obligations	\$ 56,851	61,266
Accounts payable and withholdings:		
Trade and payroll withholding	96,112	46,189
Construction in progress, including retainage	1,291,789	184,997
Accrued expenses:		
Salaries, wages and benefits	238,699	218,349
Interest	7,865	-
Estimated third-party payor settlements	<u>15,171</u>	<u>-</u>
Total current liabilities	1,706,487	510,801
Capital lease obligations, excluding current maturities	25,247	82,098
Long-term debt, excluding current maturities	<u>2,016,395</u>	<u>670,650</u>
Total liabilities	<u>3,748,129</u>	<u>1,263,549</u>
Net position:		
Net investment in capital assets	1,387,627	637,955
Restricted - expendable for capital assets	-	38,139
Unrestricted	<u>517,719</u>	<u>1,229,790</u>
Total net position	1,905,346	1,905,884
	<u>\$ 5,653,475</u>	<u>3,169,433</u>

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient and resident service revenue	\$ 4,925,867	4,770,376
Provision for bad debts	<u>(81,125)</u>	<u>(31,340)</u>
Net patient and resident service revenue, less provision for bad debts	4,844,742	4,739,036
Other revenue	<u>99,925</u>	<u>94,513</u>
Total operating revenues	<u>4,944,667</u>	<u>4,833,549</u>
Operating expenses:		
Salaries and wages	3,008,145	2,798,051
Employee benefits	874,748	850,016
Supplies and other	1,799,603	1,676,797
Depreciation	135,931	140,616
Debt issuance cost	<u>-</u>	<u>167,450</u>
Total operating expenses	<u>5,818,427</u>	<u>5,632,930</u>
Operating loss	<u>(873,760)</u>	<u>(799,381)</u>
Nonoperating revenues and expenses:		
Property tax revenue	846,054	774,991
Farm rental income	31,589	27,292
Interest income	26,547	14,240
Interest expense	(50,934)	(7,205)
Gain on disposition of land and equipment	2,600	-
Noncapital grants and contributions	<u>17,366</u>	<u>10,208</u>
Total nonoperating revenues and expenses	<u>873,222</u>	<u>819,526</u>
Excess of revenues over expenses (expenses over revenues)	(538)	20,145
Net position, beginning of year	<u>1,905,884</u>	<u>1,885,739</u>
Net position, end of year	<u>\$ 1,905,346</u>	<u>1,905,884</u>

See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

<u>Increase in Cash</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	\$ 5,155,948	4,669,730
Other revenue	99,925	94,513
Cash paid to employees	(3,862,543)	(3,672,156)
Cash paid to suppliers	<u>(1,752,186)</u>	<u>(1,939,664)</u>
Net cash used by operating activities	<u>(358,856)</u>	<u>(847,577)</u>
Cash flows from noncapital financing activities:		
Property taxes received	818,422	752,532
Noncapital grants and contributions received	<u>17,366</u>	<u>10,208</u>
Net cash provided by noncapital financing activities	<u>835,788</u>	<u>762,740</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(1,733,940)	(116,302)
Proceeds from the issuance of revenue bonds	1,345,745	670,650
Principal payments on capital lease obligations	(61,266)	(69,181)
Proceeds from sale of capital assets	2,600	-
Interest paid	<u>(43,069)</u>	<u>(7,205)</u>
Net cash provided (used) by capital and related financing activities	<u>(489,930)</u>	<u>477,962</u>
Cash flows from investing activities:		
Interest income received	26,547	14,240
Farm rental income received	<u>31,589</u>	<u>27,292</u>
Net cash provided by investing activities	<u>58,136</u>	<u>41,532</u>
Net increase in cash and cash equivalents	45,138	434,657
Cash, beginning of year	<u>949,180</u>	<u>514,523</u>
Cash, end of year	<u>\$ 994,318</u>	<u>949,180</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 227,262	256,690
Board designated cash	766,985	291,523
Restricted - construction funds	71	362,828
Restricted by donors and grantors	<u>-</u>	<u>38,139</u>
	<u>\$ 994,318</u>	<u>949,180</u>

(Continued)

JEWELL COUNTY HOSPITAL
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Statements of Cash Flows
(Continued)
Years Ended December 31, 2019 and 2018

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2019</u>	<u>2018</u>
Operating loss	\$ (873,760)	(799,381)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	135,931	140,616
Provision for bad debts	81,125	31,340
Decrease (increase) in:		
Patient and resident accounts receivable	(23,026)	142,290
Other receivables	6,794	(6,794)
Inventories	2,544	9,704
Prepaid expenses	(5,050)	4,059
Estimated third-party payor settlements	231,142	(236,142)
Increase (decrease) in:		
Accounts payable and payroll withholding	49,923	(109,180)
Accrued expenses other than accrued interest payable	20,350	(24,089)
Estimated third-party payor settlements	15,171	-
Net cash used by operating activities	<u>\$ (358,856)</u>	<u>(847,577)</u>

Supplemental Disclosure of Cash Flows Information

Capital asset additions included in accounts payable	<u>\$ 1,291,789</u>	<u>184,997</u>
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See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

December 31, 2019 and 2018

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity

These financial statements present only Jewell County Hospital (the Hospital), a political subdivision of the State of Kansas, located in Mankato, Kansas. The Hospital is a component unit of Jewell County, Kansas (the County) and is governed by a Board of Trustees (the Board) appointed by the Jewell County Board of County Commissioners. The Hospital provides acute, intermediate, clinic, and independent living (apartments) services to patients and residents in the Jewell County area.

Basis of accounting and presentation

The financial statements of the Hospital 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 nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes (county appropriations), investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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 and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2019 and 2018.

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

Intergovernmental revenue

The Hospital received approximately 14% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2019 and 2018. All of these funds were used to support operations in both years.

Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted

Patient and resident accounts receivable and allowance for uncollectibles

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients and residents who have third-party coverage, the Hospital 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 and residents (which includes both patients and residents without insurance and patients and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients and residents 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.

Inventories

Supply inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Assets whose use is limited or restricted

Assets whose use is limited or restricted include funds internally designated by the Board, assets restricted by donors or grantors and debt proceeds held with trustee for construction. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Donor and grant funds are restricted for specific purposes, as determined by the donor or grantor. Funds held by trustee are loan proceeds to be used for the building project further described in note 6.

Capital assets

The Hospital's capital assets are reported at historical cost less accumulated depreciation. Contributed capital assets are reported at their acquisition value at the time of their donation. Major renewals and improvements that exceed \$5,000 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. 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.

	<u>Life in Years</u>
Land improvements	15-20
Buildings and improvements	10-40
Fixed equipment	5-20
Moveable equipment	<u>3-20</u>

Net position

Net position of the Hospital is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The *restricted expendable* component consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The *unrestricted* component of net position is the net amount of the assets and liabilities that are not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

Restricted resources

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

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Operating revenues and expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services except interest on capital assets-related debt.

Net patient and resident service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates.

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care

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

The Hospital estimates the costs associated with providing services under its charity care policy were \$6,886 for the year ended December 31, 2019 and \$2,144 for the year ended December 31, 2018. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient and resident service revenue) to the gross charges forgone under its charity care policy.

Grants and contributions

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

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Compensated absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Accumulated PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. The maximum amount of hours to be carried forward is 480. PTO benefits are expensed and accrued as earned under the Hospital's PTO policy, with the vested amount recorded as a current accrued liability. Compensated absence liabilities are computed using regular pay rates for PTO in effect at the balance sheet date.

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.

Risk management

The Hospital 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; and natural disasters, medical malpractice and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Estimated malpractice costs

The provision for estimated medical malpractice claims, if any, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Newly adopted accounting standard

The Hospital adopted GASB Statement No. 89, *Construction Interest*. This new statement requires interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Such interest costs will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The effect of implementing this standard resulted in the Hospital expensing \$42,287 of interest costs for the year ended December 31, 2019 versus capitalizing the amount as construction in progress. The adoption of this standard had no impact on the amounts reported for the year ended December 31, 2018.

(Continued)

JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

(2) Net Patient and Resident Service Revenue

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

- **Medicare:** The Hospital is designated as a Critical Access Hospital 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 Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services, reimbursed under a prospectively determined fee-schedule. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2018.

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.

- **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 78% of net patient and resident service revenues for both of the years ended December 31, 2019 and 2018 was from combined participation in the Medicare and Medicaid programs. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

(Continued)

JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

For uninsured patients and residents that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients and residents will be unable or unwilling to pay for the services provided. The Hospital records a significant provision for bad debts related to uninsured patients and residents in the period the services are provided. Additionally, Medicare, Medicaid, and commercial insurance and other gross revenue classifications include the patient and resident responsibility amounts associated with deductibles and/or copayments. The uncollectible portions of the patient and resident responsibility amounts are included in the provision for bad debts. The following schedule provides patient and resident service revenue recognized in the period by major payor source:

	<u>2019</u>	<u>2018</u>
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	\$ 1,182,432	1,210,938
Medicaid	788,065	676,004
Commercial insurance and other	686,086	634,240
Uninsured/self-pay	541,295	540,401
Charity care deductions	<u>(3,903)</u>	<u>(1,201)</u>
Gross patient and resident service revenue (after charity care)	<u>3,193,975</u>	<u>3,060,382</u>
Contractual adjustments:		
Medicare	1,944,813	1,922,721
Medicaid	(74,176)	(78,701)
Commercial insurance and other	<u>(138,745)</u>	<u>(134,026)</u>
Total contractual adjustments	<u>1,731,892</u>	<u>1,709,994</u>
Net patient and resident service revenue	4,925,867	4,770,376
Provision for bad debts	<u>(81,125)</u>	<u>(31,340)</u>
Net patient and resident service revenue, less provision for bad debts	<u>\$ 4,844,742</u>	<u>4,739,036</u>

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

(3) Cash and Cash Equivalents

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

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

The Hospital's bank deposits at December 31, 2019 and 2018 were entirely insured by federal depository insurance or collateralized by securities held by the financial institution, or its agent, in the Hospital's name as follows:

	<u>2019</u>	<u>2018</u>
Insured by federal depository insurance	\$ 393,236	397,183
Collateralized by securities held by the pledging financial institution in the Hospital's name	<u>601,011</u>	<u>189,169</u>
	<u>\$ 994,247</u>	<u>586,352</u>

The Hospital's cash at December 31, 2019 and 2018 consisted of cash, checking accounts, savings accounts, and funds held by the Jewell County Treasurer recorded at cost which approximates market.

The carrying amounts of deposits are included in the Hospital's balance sheet captions as follows at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash	\$ 227,262	256,690
Board designated	766,985	291,523
Restricted by donors or grantors	<u>-</u>	<u>38,139</u>
	<u>\$ 994,247</u>	<u>586,352</u>

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

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

(4) Patient and Resident Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients and residents, many of whom are insured under Medicare and Medicaid third-party payor agreements.

Patient and resident accounts receivable reported as current assets at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Receivable from:		
Patients and residents	\$ 326,370	241,139
Patients and residents' insurance carriers	76,475	99,484
Medicare	170,501	189,023
Medicaid	<u>105,212</u>	<u>60,552</u>
Total patient and resident accounts receivable	<u>678,558</u>	<u>590,198</u>
Allowances for:		
Contractual adjustments	38,711	102,181
Uncollectible accounts	<u>(252,993)</u>	<u>(170,004)</u>
Total allowances	<u>(214,282)</u>	<u>(67,823)</u>
Net patient and resident accounts receivable	<u>\$ 464,276</u>	<u>522,375</u>

(5) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include: 1) funds internally designated by the Board, 2) assets restricted by donors or grantors, and 3) funds held by trustee. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Donor and grant funds are restricted for specific purposes, as determined by the donor or grantor. Funds held by trustee are loan proceeds to be used for the building project further described in note 7.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Assets whose use is limited or restricted at December 31, 2019 and 2018 were comprised of the following:

	<u>2019</u>	<u>2018</u>
Internally designated:		
Farmland	\$ 184,232	184,232
Money market account	766,985	291,523
Property taxes held by Jewell County Treasurer	<u>245,378</u>	<u>217,746</u>
Total internally designated assets	<u>\$ 1,196,595</u>	<u>693,501</u>
Restricted by donors or grantors,		
Money market account - restricted for capital assets	<u>\$ -</u>	<u>38,139</u>
Restricted by trustee,		
Federated Government Obligations, money market account - restricted for capital assets	<u>\$ 71</u>	<u>362,828</u>

(6) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended December 31, 2019 and 2018 were as follows:

	<u>2018</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2019</u>
<u>Historical costs</u>				
Land	\$ 4,760	-	-	4,760
Land improvements	103,742	-	-	103,742
Buildings and improvements	1,457,015	-	-	1,457,015
Fixed equipment	337,093	-	-	337,093
Moveable equipment	1,061,362	9,858	(7,900)	1,063,320
Construction in progress	<u>274,784</u>	<u>2,830,874</u>	<u>-</u>	<u>3,105,658</u>
Total historical costs	<u>3,238,756</u>	<u>2,840,732</u>	<u>(7,900)</u>	<u>6,071,588</u>
<u>Less accumulated depreciation</u>				
Land improvements	(80,534)	(4,801)	-	(85,335)
Buildings and improvements	(1,209,632)	(47,303)	-	(1,256,935)
Fixed equipment	(312,545)	(5,086)	-	(317,631)
Moveable equipment	<u>(854,726)</u>	<u>(78,741)</u>	<u>7,900</u>	<u>(925,567)</u>
Total accumulated depreciation	<u>(2,457,437)</u>	<u>(135,931)</u>	<u>7,900</u>	<u>(2,585,468)</u>
Net capital assets	<u>\$ 781,319</u>	<u>2,704,801</u>	<u>-</u>	<u>3,486,120</u>

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land	\$ 4,760	-	-	4,760
Land improvements	103,742	-	-	103,742
Buildings and improvements	1,457,015	-	-	1,457,015
Fixed equipment	337,093	-	-	337,093
Moveable equipment	1,028,053	33,309	-	1,061,362
Construction in progress	<u>15,794</u>	<u>258,990</u>	<u>-</u>	<u>274,784</u>
Total historical costs	<u>2,946,457</u>	<u>292,299</u>	<u>-</u>	<u>3,238,756</u>
<u>Less accumulated depreciation</u>				
Land improvements	(75,732)	(4,802)	-	(80,534)
Buildings and improvements	(1,161,997)	(47,635)	-	(1,209,632)
Fixed equipment	(306,597)	(5,948)	-	(312,545)
Moveable equipment	<u>(772,495)</u>	<u>(82,231)</u>	<u>-</u>	<u>(854,726)</u>
Total accumulated depreciation	<u>(2,316,821)</u>	<u>(140,616)</u>	<u>-</u>	<u>(2,457,437)</u>
Net capital assets	<u>\$ 629,636</u>	<u>151,683</u>	<u>-</u>	<u>781,319</u>

Construction in progress at December 31, 2019 consisted of architect fees and construction costs associated with a renovation and expansion project of the existing facility. The plan includes additions to the rural health clinic, physical therapy area and emergency department as well as renovations to acute and swing-bed patient rooms. Construction is currently expected to be completed by the end of 2020. Total project costs are currently estimated at approximately \$8,000,000. See additional information regarding the short and long-term financing of this project as described in note 7. At December 31, 2019, the Hospital had contractual commitments with architects and general contractors for the majority of the estimated costs to complete the construction of this project.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

(7) Long-term Debt

A schedule of changes in the Hospital's long-term debt for the years ended December 31, 2019 and 2018 is as follows:

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Current Portion</u>
Revenue Bonds, Series 2018-A (a)	\$ 170,650	1,345,745	-	1,516,395	-
Revenue Bonds, Series 2018-B (b)	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
Total long- term debt obligations	<u>670,650</u>	<u>1,345,745</u>	<u>-</u>	<u>2,016,395</u>	<u>-</u>
Less current installments	<u>-</u>			<u>-</u>	
Long-term debt, excluding current installments	<u>\$ 670,650</u>			<u>2,016,395</u>	
	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Revenue Bonds, Series 2018-A (a)	\$ -	170,650	-	170,650	-
Revenue Bonds, Series 2018-B (b)	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
Total long- term debt obligations	<u>-</u>	<u>670,650</u>	<u>-</u>	<u>670,650</u>	<u>-</u>
Less current installments	<u>-</u>			<u>-</u>	
Long-term debt, excluding current installments	<u>\$ -</u>			<u>670,650</u>	

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

The terms and due dates of the Hospital's long-term debt at December 31, 2019 and 2018 are as follows:

- (a) \$7,500,000 Jewell County, Kansas Hospital Revenue Bond Anticipation Bonds, Series 2018-A (Series 2018-A Bonds). On December 13, 2018, the Series 2018-A Bonds were issued in the principal amount up to \$7,500,000 to Security Bank of Kansas City (the Bank). The Hospital will draw on the Series 2018-A Bonds as needed to fund the costs of construction of an addition to and improvements, renovations, and equipment for the existing health care facilities of the Hospital as described further in note 6. Draws on the Series 2018-A Bonds will include amounts necessary for related debt issuance costs and interest incurred during the construction period. The Series 2018-A Bonds are secured by pledged revenues and have a maturity date of December 1, 2020. The Series 2018-A Bonds require interest payments on the outstanding draws at a rate of 4.25% each June 1 and December 1, beginning June 1, 2019. At December 31, 2018, the Hospital had outstanding draws totaling \$1,516,395. At maturity, the outstanding amount of the Series 2018-A Bonds will be repaid with the issuance of new bonds, not to exceed \$7,500,000, to the USDA (permanent long-term financing). The new bonds will require repayment over a period of 35 years and are expected to carry a 3.875% interest rate. Due to the agreement in place with the USDA to provide the permanent long-term financing at the December 1, 2020 maturity date of the original bonds, the entire outstanding amount of \$1,516,395 is being reported as long-term debt at December 31, 2019.
- (b) \$500,000 Jewell County, Kansas, Taxable Hospital Revenue Bonds Series 2018-B (Series 2018-B). The Series 2018-B Bonds were issued on December 13, 2018 for the purpose of paying a portion of the costs of expanding and improving the Hospital, as further described in note 7.

The Series 2018-B Bonds are payable in annual installments of \$10,000 to \$35,000 from 2021 to 2043. Interest payments are due each June 1 and December 1, beginning June 1, 2019 at an interest rate of 5.25% through December 1, 2023 at which time the rate adjusts to the New York prime commercial lending rate and adjusts on each 5th anniversary thereafter.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Scheduled principal and interest amounts on the Series 2018-B Bonds are as follows:

Year Ending December 31,	Bonds Payable		Total
	Principal	Interest	
2020	\$ -	26,250	26,250
2021	10,000	26,250	36,250
2022	10,000	25,725	35,725
2023	15,000	25,200	40,200
2024	15,000	24,413	39,413
2025-2029	80,000	110,250	190,250
2030-2034	105,000	86,625	191,625
2035-2039	135,000	56,175	191,175
2040-2043	<u>130,000</u>	<u>17,588</u>	<u>147,588</u>
Total	\$ <u>500,000</u>	<u>398,476</u>	<u>898,476</u>

(8) Capital Lease Obligations

A schedule of changes in the Hospital's capital lease obligations for the years ended December 31, 2019 and 2018 is as follows:

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 9,605	-	(2,695)	6,910	2,918
Capital lease payable (b)	5,191	-	(5,191)	-	-
Capital lease payable (c)	119,082	-	(48,058)	71,024	49,769
Capital lease payable (d)	<u>9,486</u>	<u>-</u>	<u>(5,322)</u>	<u>4,164</u>	<u>4,164</u>
Total capital lease obligations	143,364	<u>-</u>	<u>(61,266)</u>	82,098	<u>56,851</u>
Less current installments	<u>61,266</u>			<u>56,851</u>	
Capital lease obligations, excluding current installments	\$ <u>82,098</u>			<u>25,247</u>	

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 12,093	-	(2,488)	9,605	2,695
Capital lease payable (b)	20,406	-	(15,215)	5,191	5,191
Capital lease payable (c)	165,487	-	(46,405)	119,082	48,057
Capital lease payable (d)	<u>14,559</u>	<u>-</u>	<u>(5,073)</u>	<u>9,486</u>	<u>5,323</u>
Total capital lease obligations	212,545	<u>-</u>	<u>(69,181)</u>	143,364	<u>61,266</u>
Less current installments	<u>69,181</u>			<u>61,266</u>	
Capital lease obligations, excluding current installments	<u>\$ 143,364</u>			<u>82,098</u>	

The terms and due dates of the Hospital's capital lease obligations, at December 31, 2019 are as follows:

- (a) Capital lease obligation, due in monthly installments of \$280, including interest at an imputed rate of 8.00%; secured by firewall equipment having an original cost basis of \$23,117 and net book value of \$5,587 at December 31, 2019.
- (b) Capital lease obligation, due in monthly installments of \$1,307, including interest at 3.50%; secured by pharmacy dispensing equipment. This lease was paid off during 2019.
- (c) Capital lease obligation, due in monthly installments of \$4,289 beginning in June 2016, including interest at 3.50%; secured by a CT machine and modular building having an original cost basis of \$261,073 and net book value of \$125,407 at December 31, 2019.
- (d) Capital lease obligation, due in monthly installments of \$472 beginning in November 2015, including interest at 4.82%; secured by a CR imaging system having an original cost basis of \$25,120 and net book value of \$4,187 at December 31, 2019.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

Scheduled principal and interest amounts on capital leases are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 56,851	2,226	59,077
2021	24,417	392	24,809
2022	<u>830</u>	<u>11</u>	<u>841</u>
Total	<u>\$ 82,098</u>	<u>2,629</u>	<u>84,727</u>

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) which provides \$200,000 of coverage per occurrence and \$600,000 aggregate coverage. 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. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

(10) Deferred Compensation and Defined Contribution Plan

The Hospital participates in the KPERS 457(b) Defined Contribution Deferred Compensation Plan and the KPERS 401(a) Supplemental Defined Contribution Plan, which complements the KPERS 457(b) plan. Eligibility is established by all employees who have completed one year of continuous service. Full-time employees may contribute up to 4% of their gross compensation per year. Part-time employees may contribute up to 2% of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25% of their gross compensation or \$16,500. The Hospital matches employee contributions up to 4% and 2% of eligible compensation for full-time and part-time employees, respectively. Employer and employee contributions vest immediately. Benefits are funded by fixed and variable annuities with an insurance company. Contributions actually made by employees totaled \$89,423 and \$81,992 in 2019 and 2018, respectively. Hospital contributions under both plans totaled \$71,981 and \$68,493 in 2019 and 2018, respectively.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

(11) Operating Lease

During 2014, the Hospital began leasing telemetry equipment under a five-year operating lease, with fixed monthly rental payments. Lease expense totaled \$9,450 for 2019 and \$11,375 for 2018.

(12) Subsequent Event - Coronavirus Pandemic

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 U.S. declared an emergency under sections 201 and 301 of the National Emergencies Act. Since this declaration, the Hospital has operated within the guidelines provided by both State and Federal regulatory agencies. Additionally, many state and local governments instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions have resulted in a decrease in overall hospital service volumes as both hospital and physician elective procedures have been limited. The U.S. Congress passed both the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide various relief programs and direct funds to both healthcare providers, such as the Hospital, and the general public to assist during the duration of the pandemic.

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various Provider Relief Funds to distribute funds to healthcare providers. During April and May 2020, the Hospital received a total of \$2,640,120 from the Provider Relief Funds established. The terms and conditions associated with accepting the funds, specifically state they can only be used to prevent, prepare for, and respond to coronavirus healthcare-related expenses or lost revenues that are attributable to the coronavirus. The Hospital is required to file reports with HHS regarding the use of these funds for eligible purposes. Additionally, the funds are required to be included in the federal funding calculation that determines whether nonfederal entities meet the \$750,000 threshold for single audit requirements and are also subject to potential future audits by governmental oversight organizations. Any unused funds are required to be returned to HHS.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

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

The Hospital applied for and received a PPP loan totaling \$757,974 on May 4, 2020. The Hospital anticipates at this time it will meet the loan forgiveness criteria for most, if not all, of the PPP loan and associated interest.

The Hospital has been operating in a significantly different environment since the COVID-19 pandemic began in March 2020. At this time, the pandemic continues to impact the U.S and although certain U.S. areas are reopening, it is currently unknown how successful the re-openings will be and if successful, how long it will take for the U.S. to be completely reopened and operating at normal historical levels. Currently, the U.S. Congress is considering additional legislative acts to provide more assistance to the general public and various business sectors.

The current and long-term impact of the COVID-19 pandemic, could have a negative effect on the financial condition and results of operations of the Hospital and will depend on various developments, including duration and spread of COVID-19, the Hospital's ability to provide healthcare services to the general public, the impact on the local community and economy and on the Hospital's supply vendors, all of which are uncertain and cannot be predicted. At this time, the extent to which COVID-19 may impact the Hospital's financial condition or results of operations for future periods is uncertain.

(13) Reclassification

The Hospital's 2018 financial statements have been reclassified to conform with 2019 presentation.

JEWELL COUNTY HOSPITAL
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2019

<u>Federal Programs</u>	<u>Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture, Community Facilities Loans and Grants Cluster	Community Facilities Loans and Grants	10.766	\$ 1,516,395
	Community Facilities Loans and Grants (Community Programs)	10.780	<u>500,000</u>
Total Community Facilities Loans and Grants Cluster			2,016,395
United States Department of Health and Human Services: Pass through entity: Kansas Department of Health and Environment, Office of Rural Health, identifying number H3HR00017	Small Hospital Improvement Program	93.301	<u>8,696</u>
Total Expenditures of Federal Awards			\$ <u>2,025,091</u>

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

* * * * *

(Continued)

JEWELL COUNTY HOSPITAL

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards activity of the Hospital under programs of the federal government for the year ended December 31, 2019. The accompanying schedule presents total expenditures in accordance with Title 2 U.S. Code of Federal Regulations (CFR) 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

Expenditures reported on this schedule are reported on the accrued basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

C. USDA Loans

The amount of federal awards expended for the year under CFDA number 10.766 and 10.780 includes the beginning of year balance of \$670,650 and new loan advances expended during the fiscal year of \$1,345,745. The ending outstanding balance as of December 31, 2019 of the USDA Community Facilities Loan and Grant was as follows:

USDA direct loan	10.766	\$ 1,516,395
USDA guaranteed loan	10.780	<u>500,000</u>
		<u>\$2,016,395</u>

D. Indirect Cost Rate

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

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
Jewell County Hospital
Mankato, 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 Jewell County Hospital (the Hospital), which comprise the statement of financial position as of December 31, 2019, and related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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. We consider the deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-A through 2019-C to be material weaknesses.

* * * * *

(Continued)

Compliance and Other Matters

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

* * * * *

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

OPERATING LOSSES

Although the Hospital has stabilized its operating results over the last several years, it continues to report operating losses. Due to the Hospital's size and location, generating net income from operations will continue to be challenging. We suggest the Hospital continue to focus on minimizing its loss from operations by continuing to review its operations focusing on both the expenses of the Hospital and its charge structure. Expenses should be reviewed to identify areas where the Hospital can potentially lower its operating expenses. Additionally, we suggest the Hospital closely monitor its existing charge structure looking for areas of potential opportunity to generate additional revenue.

NEW ACCOUNTING STANDARD

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

GASB Statement No. 87 – Lease Accounting

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's effective date has been delayed and it is now expected to be 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.

(Continued)

MEDICARE COST REPORTING

Review of Cost Report Cost Centers and Statistical Bases

We have recently noted the Hospital's Medicare Administrative Contractor (MAC) during its reviews/audits of submitted Medicare cost reports is requesting facility's to provide approval letters for any unique cost centers and any non-standard statistical bases being utilized. If the facility cannot provide approval letters dated after May 1, 2010, the MAC is issuing a management letter stating the hospital should either change to follow the prescribed methodologies on the cost reporting forms or request approvals for other methodologies being utilized.

We suggest the Hospital review the current cost centers and statistical bases being utilized and request approval for any deviations from the methodologies prescribed on the standard cost reporting forms. We also suggest that as part of this process the Hospital analyze any potential changes in its current cost reporting methodologies that could result in improved overall reimbursement. We would be pleased to assist the Hospital with this process if so desired.

FRAUD RISK ASSESSMENT

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

* * * * *

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. The Hospital's responses were not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
September 28, 2020

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
Jewell County Hospital
Mankato, KS:

Report on Compliance for Each Major Federal Program

We have audited Jewell County Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2019. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of federal awards.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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

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

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
September 28, 2020

JEWELL COUNTY HOSPITAL

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes No

Type of auditor's report issued on compliance for major programs:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance (2 CFR section 200.516(a))?

Yes No

Identification of major programs:

CFDA

Program Name

10.766/10.780

Community Facilities
Loans and Grants Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

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SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING 2019-A SEGREGATION OF DUTIES

Criteria

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

Conditions

Not all major accounting areas have complete segregation of duties.

Cause

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

Specific areas and comments

Cash account reconciliations

There is no formal review process for the monthly bank reconciliation process. We recommend the bank reconciliations be reviewed and approved by someone at the appropriate level of experience on a monthly basis and that the review and approval be documented.

Cash receipt/accounts receivable (AR) processes

There are personnel in the cash receipts/AR area who have physical access to cash receipts and are either directly involved with the posting of AR payments or have the ability to post payments to the AR system. These same personnel also have the ability to record AR contractual adjustments, as well as bad debt and charity care write-offs. We recommend a review of these duties to determine if these functions can be segregated or if mitigating procedures can be performed to improve overall control functions for this area.

Cash disbursements/accounts payable (AP), purchasing, and inventory processes

The AP agent has access, recording, and monitoring abilities. Specifically, the AP agent can initiate purchases, record AP transactions, initiate payments, change master vendor files, and prepare AP reconciliations to the general ledger. While the AP agent is not an authorized signer, controls in this area should be reviewed to determine where improvements can be made. At a minimum, we recommend mitigating procedures be implemented, such as having an appropriate level of management review changes to the master vendor list and AP reconciliations to the general ledger. Reviews performed should be formally documented.

Custody of checks after signature and before mailing is handled by an employee that is not independent of payable, disbursing, and general ledger functions.

Personnel who are responsible for receipt, storage, and issuance of goods are not independent of responsibility for purchases, sales, and inventory records. Ideally, these functions would be performed by separate individuals.

Inventory counts are not performed by someone independent of the actual inventory control process for some departments.

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Payroll processing

Personnel actually preparing and processing payroll have the ability to make payroll system master file changes, such as adding new employees, changes to wage rates, and adding employees to the payroll deposit listing used by the bank to make the payroll direct deposit.

The same personnel also perform all associated payroll reconciliation procedures, including payroll liability accounts not paid by check.

Effect and recommendations

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

Views of responsible officials and planned corrective actions

Management understands these limited personnel control deficiencies and will continue to review and implement procedural changes to improve controls as economically feasible.

FINDING 2019-B THIRD PARTY PAYOR ESTIMATES

Criteria

Preparation of a Medicare cost report settlement estimate on an on-going monthly basis.

Condition

The Hospital does prepare some year-to-date Medicare cost report settlement estimates during the year but generally does not prepare an estimate at the end of every monthly close and did not prepare one as of year-end. Based on the receipt of the 2019 Medicare cost report, a year-end audit adjustment of \$481,000 was required to adjust the third-party payor settlement amounts as of December 31, 2019.

Cause

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

Effect and recommendation

A significant audit adjusting journal entry was required at year-end. We suggest at the end of each monthly close the Hospital perform a year-to-date Medicare cost report settlement calculation with a corresponding adjustment made as necessary. Monthly preparation of such a calculation will provide Hospital 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

The Hospital does prepare at least one estimated Medicare cost report settlement calculation during each calendar year. The Hospital will consider performing additional estimates this upcoming year.

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FINDING 2019-C GAAP FINANCIAL STATEMENT PREPARATION

Criteria

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

Condition

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

Cause

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

Effect and recommendation

Year-end financial statements, prepared in accordance with GAAP, are currently prepared by Hospital management with assistance from the auditors. We suggest management review its current processes and determine whether it is a cost beneficial goal to be able to prepare year-end financial statements in accordance with GAAP with little or no assistance.

Views of responsible officials and planned corrective actions

Management understands that this is a deficiency, but based on cost/risk analysis, it was determined that it is not economically feasible to contract external assistance for financial statement preparation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2019-001 WRITTEN POLICIES ON FEDERAL AWARDS

10.766/10.780 Community Facilities Loans and Grants Cluster

Criteria

Uniform Guidance requires written policies, procedures and standards of conduct for Federal award programs.

Conditions

Although the Hospital does have some written policies regarding general accounting and personnel conduct, it does not have any specific to the federal award program it is currently participating in.

Cause

The Hospital typically does not participate in material federal award programs and has therefore never been required to develop any specific written policies for such programs.

Effect

Lack of written policies specific to the federal award program could result in the Hospital being noncompliant with the various terms and requirements of the program.

Repeat finding

Not applicable.

Recommendations

The Hospital should develop formal written policies for the federal award program requirements to assure compliance with its terms and conditions.

Views of responsible officials and planned corrective actions

Management will develop formal written policies for the Federal award program requirements applicable to our Hospital to assure compliance with their terms and conditions.

JEWELL COUNTY HOSPITAL
Summary of Prior Year Audit Findings
Year Ended December 31, 2019

Not applicable – This is the first year the audit has been completed in accordance with *Government Auditing Standards*.