JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Financial Statements

Years Ended December 31, 2023 and 2022

(Together With Independent Auditor's Report)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

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Years Ended December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jewell County Hospital
Mankato, Kansas:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Jewell County Hospital, a component unit of Jewell County, Kansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Jewell County Hospital's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jewell County Hospital as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits 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 Jewell County Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in note 14 to the financial statements, during the year ended December 31, 2023, Jewell County Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). Our opinion is not modified with respect to this matter.

(Continued)

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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.

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 Jewell County Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, the *Kansas Municipal Audit and Accounting 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 Jewell County Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Jewell County Hospital's ability to continue as a going concern for a reasonable period of time.

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

(Continued)

Required Supplementary Information

Management 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 Jewell County Hospital'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), 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 March 13, 2025 on our consideration of Jewell County Hospital'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 Jewell County Hospital'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 Jewell County Hospital's internal control over financial reporting and compliance.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 13, 2025

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Financial Position

December 31, 2023 and 2022

Assets	2023	2022
Current assets:		
Cash	$ 1,926,759	2,386,694
Other interest bearing deposits	2,510,105	-
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of $(127,406) in 2023 and $(544,912) in 2022	768,028	1,703,755
Other receivables	30,179	9,076
Supply inventories	55,653	46,454
Prepaid expenses	56,123	48,607
Estimated third-party payor settlements	209,506	720,025
Total current assets	5,556,353	4,914,611
Assets whose use is limited or restricted:		
Internally designated:		
Farmland	184,232	184,232
Board account - cash	2,044,076	997,899
Property taxes held by Jewell County Treasurer	71,866	76,181
Restricted by donors or grantors - cash	91,834	-
Held by trustee - debt service funds	177,477	97,790
Total assets whose use is limited or restricted	2,569,485	1,356,102
Capital assets	10,808,519	10,610,865
Less accumulated depreciation	3,768,933	3,049,541
Net capital assets	7,039,586	7,561,324
Subscription assets	1,062,419	1,062,419
Less accumulated amortization	579,502	289,751
Net subscription assets	482,917	772,668
	$ 15,648,341	14,604,705

See accompanying notes to financial statements.

Liabilities and Net Position	2023	2022
Current liabilities:		
Current installments of:		
Long-term debt	$ 167,503	164,741
Lease obligations	72,360	69,247
Subscription obligations	297,322	285,683
Accounts payable and withholdings:	391,542	292,178
Accrued expenses:		
Salaries, wages and benefits	308,628	317,188
Interest	3,265	3,356
Estimated third-party payor settlements	530,000	-
Total current liabilities	1,770,620	1,132,393
Long-term debt, excluding current installments	7,501,131	7,668,634
Lease obligations, excluding current installments	104,164	176,524
Subscription obligations, excluding current installments	204,914	502,236
Total liabilities	9,580,829	9,479,787
Net position:		
Net investment in capital assets	(824,891)	(533,073)
Restricted - expendable for debt service	177,477	97,790
Restricted - expendable for capital assets	91,834	-
Unrestricted	6,623,092	5,560,201
Total net position	6,067,512	5,124,918
	$ 15,648,341	14,604,705

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2023 and 2022

	2023	2022
Operating revenues:		
Net patient and resident service revenue	$ 7,618,393	6,309,020
Provision for bad debts	(9,395)	(50,839)
Net patient and resident service revenue, less provision for bad debts	7,608,998	6,258,181
Other revenue	144,668	157,692
Total operating revenues	7,753,666	6,415,873
Operating expenses:		
Salaries and wages	4,170,355	3,726,099
Employee benefits	1,113,031	989,431
Supplies and other	2,194,259	2,068,489
Depreciation and amortization	1,014,122	1,007,317
Total operating expenses	8,491,767	7,791,336
Operating loss	(738,101)	(1,375,463)
Nonoperating revenues and expenses:		
Noncapital appropriations - Jewell County	977,989	957,935
Farm rental income	37,572	31,006
Interest income	216,287	54,342
Interest expense	(217,726)	(235,310)
Gain on disposition of capital assets	2,832	4,707
Grants - provider relief funds	-	410,531
Noncapital grants and contributions	663,741	18,313
Total nonoperating revenues and expenses	1,680,695	1,241,524
Excess of revenues over expenses (expenses over revenues)	942,594	(133,939)
Capital grants and contributions	-	255,956
Increase in net assets	942,594	122,017
Net position, beginning of year	5,124,918	5,002,901
Net position, end of year	$ 6,067,512	5,124,918

See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

Increase or Decrease in Cash	2023	2022
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	$ 9,564,141	5,445,983
Other revenue	144,668	157,692
Cash paid to employees	(5,291,946)	(4,681,971)
Cash paid to suppliers	(2,177,299)	(1,931,545)
Net cash provided (used) by operating activities	2,239,564	(1,009,841)
Cash flows from noncapital financing activities:		
Noncapital appropriations - Jewell County	982,304	956,974
Noncapital grants and contributions received	663,741	18,313
Net cash provided by noncapital financing activities	1,646,045	975,287
Cash flows from capital and related financing activities:		
Capital expenditures	(137,117)	(225,873)
Capital grants and contributions	-	255,956
Principal payments on capital lease obligations	(69,247)	(67,081)
Principal payments on revenue bonds	(164,741)	(156,625)
Principal payments on subscription liability	(285,683)	(274,500)
Proceeds from sale of capital assets	3,005	4,707
Interest paid	(217,817)	(235,378)
Net cash used by capital and related financing activities	(871,600)	(698,794)
Cash flows from investing activities:		
Interest income received	216,287	54,342
Farm rental income received	37,572	31,006
Net cash provided by investing activities	253,859	85,348
Net increase (decrease) in cash and cash equivalents	3,267,868	(648,000)
Cash, beginning of year	3,482,383	4,130,383
Cash, end of year	$ 6,750,251	3,482,383
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 1,926,759	2,386,694
Other interest bearing deposits	2,510,105	-
Board designated cash	2,044,076	997,899
Restricted - construction funds	177,477	97,790
Restricted - grantors	91,834	-
	$ 6,750,251	3,482,383

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Cash Flows
(Continued)
Years Ended December 31, 2023 and 2022

Reconciliation of Operating Loss to Net Cash Provided or Used by Operating Activities	2023	2022
Operating loss	$ (738,101)	(1,375,463)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,014,122	1,007,317
Provision for bad debts	9,395	50,839
Decrease (increase) in:		
Patient and resident accounts receivable	926,332	(1,055,879)
Other receivables	(21,103)	32,561
Supply inventories	(9,199)	24,577
Prepaid expenses	(7,516)	(20,306)
Estimated third-party payor settlements	510,519	179,975
Increase (decrease) in:		
Accounts payable and payroll withholding	33,675	132,673
Accrued expenses other than accrued interest payable	(8,560)	33,559
Estimated third-party payor settlements	530,000	(17,000)
Medicare advance payment	-	(2,694)
Net cash provided (used) by operating activities	$ 2,239,564	(1,009,841)

Supplemental Disclosure of Cash Flows Information

Capital asset additions included in accounts payable	$ 65,689	-

See accompanying notes to financial statements.

(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 original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2023 and 2022.

(Continued)

Noncapital appropriations – Jewell County

The Hospital received approximately 11% and 13% in 2023 and 2022, respectively, of its financial support from noncapital appropriations from Jewell County property tax levy. All of these funds were used to support operations in both years.

Property taxes are assessed on a calendar year basis and are received beginning in January 1 of each year. Revenue from noncapital appropriations – Jewell County 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.

Supply 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.

Assets whose use is limited or restricted

Assets whose use is limited or restricted include funds or assets internally designated by the Board, funds restricted by donors for capital asset acquisition and funds held by trustee for debt reserve purposes. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose.

(Continued)

Capital assets

Capital asset acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using 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. Capital assets under lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

	Life in Years
Land improvements	10-20
Buildings	10-40
Fixed equipment	5-20
Moveable equipment	3-20
Subscriptions	3-10

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Subscription assets

Subscription assets are recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital and subscription asset impairment

The Hospital evaluates capital and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or subscription asset has occurred. If a capital or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or accumulated amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

(Continued)

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.

Net position

Net position of the Hospital is classified in three components on its balance sheets.

- *Net investment in capital assets* consists of capital, lease and subscription assets net of accumulated depreciation and amortization reduced by the outstanding balances of borrowings and liabilities used to finance the purchase, construction or lease of those assets.
- *Restricted expendable* net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.
- *Unrestricted* net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted 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.

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.

(Continued)

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 $76,700 and $61,600 for the years ended December 31, 2023 and 2022, respectively. 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.

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.

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.

(Continued)

New accounting and reporting standard

On January 1, 2023, the Hospital adopted GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements* (SBITA). 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 cost of a SBITA. The subscription liability should be initially measured at the present value of the subscription payments expected to be made during the subscription term. See note 14 regarding the effect of adopting GASB Statement No. 96.

(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, 2021.

  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 Coronavirus Aid, Relief, and Economic Security Act (CARES Act) temporarily exempted Medicare from the effects of sequestration. This exemption was in effect from May 1, 2020 through March 31, 2022. From April 1, 2022 to June 30, 2022, a 1% reduction occurred and after June 30, 2022, the full 2% reduction is effective 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.

(Continued)

Approximately 82% and 79% of net patient and resident service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2023 and 2022, respectively. 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.

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:

	2023	2022
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	$ 2,172,913	1,732,151
Medicaid	745,250	600,424
Commercial insurance and other	1,148,263	1,042,661
Uninsured/self-pay	667,643	455,396
Charity care deductions	(44,062)	(31,532)
Gross patient and resident service revenue (after charity care)	4,690,007	3,799,100
Contractual adjustments:		
Medicare	3,225,349	2,746,314
Medicaid	70,226	(94,653)
Commercial insurance and other	(367,189)	(141,741)
Total contractual adjustments	2,928,386	2,509,920
Net patient and resident service revenue	7,618,393	6,309,020
Provision for bad debts	(9,395)	(50,839)
Net patient and resident service revenue, less provision for bad debts	$ 7,608,998	6,258,181

(Continued)

(3) CARES Act Provider Relief Funds and Other COVID-19 Funds

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. The U.S. Congress passed the Families First Coronavirus Response Act, the CARES Act, and the American Rescue Plan Act (ARP Act) to provide various relief programs and direct funds to both health care 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 health care providers. The Hospital received Provider Relief Fund distributions of $410,531 and $2,689,581 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 Hospital specifically state they can only be used to prevent, prepare for, and respond to coronavirus health care-related expenses or 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 Hospital considered the receipt of the funds a voluntary nonexchange transaction and the incurrence of eligible coronavirus health care-related expenses or lost revenues attributable to the coronavirus to be eligibility requirements for accounting and financial reporting purposes. The PRF amounts received were recorded as Advanced grants (liability). The liability was derecognized and nonoperating revenues recognized, as the eligibility requirements were determined to be met by the Hospital. The Hospital believes it has met certain terms and conditions during the applicable reporting periods and therefore recognized $410,531 and $2,689,581 for the years ended December 31, 2022 and 2021, respectively, as Grants - provider relief funds.

The Hospital also received $255,956 of funds from the State of Kansas and other organizations during the year ended December 31, 2022 to provide general financial assistance during the pandemic or to be specifically used for COVID-19 related expenses. The Hospital recognized $255,956 as Capital grants and contributions for the year ended December 31, 2022 due to meeting the terms and conditions associated with the funds.

(Continued)

(4) 340B Pharmacy Revenue

During 2020, the Hospital began participating in the 340B Drug Discount Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter in to certain contracts with unrelated pharmacies who provide certain prescription drugs to Hospital patients who receive rural health clinic and outpatient services. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring process. 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 future. Included in other operating revenue is $36,380 and $56,772 of 340B Program revenue for the years ended December 31, 2023 and 2022, respectively.

(5) Cash and Other Interest Bearing Deposits

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, 2023 and 2022 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:

	2023	2022
Insured by federal depository insurance	$ 604,028	637,939
Collateralized by securities held by the pledging financial institution in the Hospital's name	6,146,223	2,844,444
	$ 6,750,251	3,482,383

The Hospital's cash at December 31, 2023 and 2022 consisted of cash, checking accounts, savings accounts, as well as certificates of deposit and funds held by the Jewell County Treasurer recorded at cost, which approximates market.

(Continued)

The carrying amounts of deposits are included in the Hospital's balance sheet captions as follows at December 31, 2023 and 2022:

	2023	2022
Cash	$ 1,926,759	2,386,694
Other interest bearing deposits	2,510,105	-
Board designated	2,044,076	997,899
Restricted by donors or grantors	91,834	-
Held by trustee - debt service funds	177,477	97,790
	$ 6,750,251	3,482,383

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.

(6) 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, 2023 and 2022 consisted of the following:

	2023	2022
Receivable from:		
Patients and residents	$ 164,963	445,199
Patients and residents' insurance carriers	179,403	248,350
Medicare	239,965	375,419
Medicaid	56,291	89,875
Total patient and resident accounts receivable	640,622	1,158,843
Allowances for:		
Contractual adjustments	258,085	919,694
Uncollectible accounts	(130,679)	(374,782)
Total allowances	127,406	544,912
Net patient and resident accounts receivable	$ 768,028	1,703,755

(Continued)

(7) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include: 1) funds and assets internally designated by the Board including property taxes held by Jewell County Treasurer 2) funds designated by donors for specific purposes and 3) funds held by trustee for debt service. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Funds held by trustee include a debt reserve account, an account required to be funded and used for annual debt service payments and a capital replacement reserve account associated with the revenue bonds as further described in note 9.

Assets whose use is limited or restricted at December 31, 2023 and 2022 were comprised of the following:

	2023	2022
Internally designated:		
Farmland	$ 184,232	184,232
Board account - cash	2,044,076	997,899
Property taxes held by Jewell County Treasurer	71,866	76,181
Total internally designated assets	$ 2,300,174	1,258,312
Restricted by donors or grantors - cash	$ 91,834	-
Restricted by trustee,		
Federated Government		
Obligations - money market accounts	$ 177,477	97,790

(Continued)

(8) Capital and Subscription Assets

Capital asset additions, transfers/retirements, and balances for the years ended December 31, 2023 and 2022 were as follows:

	2022	Additions	Transfers/ Retirements	2023
Historical costs				
Land (not depreciated)	$ 4,760	-	-	4,760
Land improvements	286,309	-	-	286,309
Buildings and improvements	7,494,109	-	-	7,494,109
Fixed equipment	1,595,298	10,352	(5,152)	1,600,498
Moveable equipment	867,683	30,895	10,000	908,578
Leased equipment	352,706	-	-	352,706
Construction in progress (not depreciated)	10,000	161,559	(10,000)	161,559
Total historical costs	10,610,865	202,806	(5,152)	10,808,519
Less accumulated depreciation				
Land improvements	(121,325)	(15,944)	-	(137,269)
Buildings and improvements	(1,796,769)	(491,472)	-	(2,288,241)
Fixed equipment	(349,977)	(115,798)	4,979	(460,796)
Leased equipment	(88,721)	(57,171)	-	(145,892)
Moveable equipment	(692,749)	(43,986)	-	(736,735)
Total accumulated depreciation	(3,049,541)	(724,371)	4,979	(3,768,933)
Net capital assets	$ 7,561,324	(521,565)	(173)	7,039,586

(Continued)

	2021	Additions	Transfers/ Retirements	2022
Historical costs				
Land (not depreciated)	$ 4,760	-	-	4,760
Land improvements	286,309	-	-	286,309
Buildings and improvements	7,452,709	41,400	-	7,494,109
Fixed equipment	1,595,298	-	-	1,595,298
Moveable equipment	816,758	66,925	(16,000)	867,683
Leased equipment	352,706	-	-	352,706
Construction in progress (not depreciated)	30,000	21,400	(41,400)	10,000
Total historical costs	10,538,540	129,725	(57,400)	10,610,865
Less accumulated depreciation				
Land improvements	(105,381)	(15,944)	-	(121,325)
Buildings and improvements	(1,304,625)	(492,144)	-	(1,796,769)
Fixed equipment	(233,593)	(116,384)	-	(349,977)
Leased equipment	(31,567)	(57,154)	-	(88,721)
Moveable equipment	(672,809)	(35,940)	16,000	(692,749)
Total accumulated depreciation	(2,347,975)	(717,566)	16,000	(3,049,541)
Net capital assets	$ 8,190,565	(587,841)	(41,400)	7,561,324

Construction in progress at December 31, 2023 consisted of costs related to a server project, a lab analyzer and stress test treadmill not yet placed in service. No additional costs are expected to place the assets in service.

Subscription assets activity for the years ended December 31, 2023 and 2022 was:

	2022	Additions	Transfers and Retirements	2023
Historical costs				
Subscriptions	$ 1,062,419	-	-	1,062,419
Less accumulated amortization				
Subscriptions	(289,751)	(289,751)	-	(579,502)
Net subscription asset	$ 772,668	(289,751)	-	482,917

(Continued)

	2021	Additions	Transfers and Retirements	2022
Historical costs				
Subscriptions	$ 1,062,419	-	-	1,062,419
Less accumulated amortization				
Subscriptions	-	(289,751)	-	(289,751)
Net subscription asset	$ 1,062,419	(289,751)	-	772,668

(9) Long-term Debt

A schedule of changes in the Hospital's long-term debt for the years ended December 31, 2023 and 2022 are as follows:

	2022	Additions	Reductions	2023	Current Portion
Revenue Bonds, Series 2021 (a)	$ 7,353,375	-	(149,741)	7,203,634	152,503
Revenue Bonds, Series 2018-B (b)	480,000	-	(15,000)	465,000	15,000
Total long-term debt obligations	7,833,375	-	(164,741)	7,668,634	167,503
Less current installments	164,741			167,503	
Long-term debt, excluding current installments	$ 7,668,634			7,501,131	

	2021	Additions	Reductions	2022	Current Portion
Revenue Bonds, Series 2021 (a)	$ 7,500,000	-	(146,625)	7,353,375	149,741
Revenue Bonds, Series 2018-B (b)	490,000	-	(10,000)	480,000	15,000
Total long-term debt obligations	7,990,000	-	(156,625)	7,833,375	164,741
Less current installments	156,625			164,741	
Long-term debt, excluding current installments	$ 7,833,375			7,668,634	

(Continued)

The terms and due dates of the Hospital's long-term debt at December 31, 2023 and 2022 are as follows:

(a) On December 28, 2021, $7,500,000 of Series 2021 Bonds were issued to the USDA. The Series 2021 Bonds require thirty-five annual payments of principal and interest starting on December 28, 2022, carry a 2.125% interest rate with the final principal and interest payments due December 28, 2056.

The Series 2021 Bonds carry various debt covenants, some of the more significant covenants are as follows:

- The Hospital has to maintain sixty days of cash on hand. This requirement was met as of December 31, 2023.
- The Hospital is required to maintain a minimum 1.2 debt service coverage ratio for the life of the loan. This requirement was met as of December 31, 2023.
- The Hospital must establish a debt service reserve fund that it will make monthly deposits of $2,550 into until the account is fully funded to $306,000. The funding requirement started in January 2022 and was met for the years ended December 31, 2023 and 2022.
- The Hospital must establish a capital replacement reserve account and deposit $2,917 per month until the account is fully funded to $350,000. The funding requirement started in January 2022 and was met for the years ended December 31, 2023 and 2022.

(b) $500,000 Jewell County, Kansas, Taxable Hospital Revenue Bonds Series 2018-B (Series 2018-B). The Series 2018-B Bonds are payable in annual installments of $10,000 to $35,000 from 2024 to 2043. Interest payments are due on June 1 and December 1 each year. The original interest rate was set at 5.25% through December 1, 2023 (initial 5-year period). Thereafter, the rate was to reset each 5th anniversary year to the New York prime commercial lending rate. The Hospital received a waiver from the bank stating the interest rate will stay set at 5.25% until maturity.

(Continued)

Scheduled principal and interest amounts on the Series 2021 and 2018-B Bonds are as follows:

Year Ending December 31,	Bonds Payable Principal	Interest	Total
2024	$ 167,503	193,022	360,525
2025	171,163	188,087	359,250
2026	174,482	183,493	357,975
2027	177,871	178,829	356,700
2028	180,949	174,476	355,425
2029-2033	985,812	792,938	1,778,750
2034-2038	1,114,053	647,947	1,762,000
2039-2043	1,253,192	478,883	1,732,075
2044-2048	1,214,292	315,708	1,530,000
2049-2053	1,349,188	180,812	1,530,000
2054-2056	880,129	37,681	917,810
Total	$ 7,668,634	3,371,876	11,040,510

(10) Lease Obligations

The Hospital leases various pieces of operating equipment generally under noncancelable fixed payment agreements over three to five years. The leases in place do not contain any variable payment arrangements or residual guarantees.

A schedule of changes in the Hospital's lease obligations for December 31, 2023 and 2022 follows:

	2022	Additions	Reductions	2023	Current Portion
Lease payable (a)	$ 193,223	-	(49,587)	143,636	51,847
Lease payable (b)	52,548	-	(19,660)	32,888	20,513
Total lease obligations	245,771	-	(69,247)	176,524	72,360
Less current installments	69,247			72,360	
Lease obligations, excluding current installments	$ 176,524			104,164	

(Continued)

	2021	Additions	Reductions	2022	Current Portion
Lease payable (a)	$ 240,632	-	(47,409)	193,223	49,587
Lease payable (b)	71,390	-	(18,842)	52,548	19,660
Lease payable (c)	830	-	(830)	-	-
Total lease obligations	312,852	-	(67,081)	245,771	69,247
Less current installments	67,081			69,247	
Lease obligations, excluding current installments	$ 245,771			176,524	

The terms and due dates of the Hospital's lease obligations at December 31, 2023 are as follows:

(a) Lease obligation (X-ray equipment), due in monthly installments of $4,772 beginning in September 2021, including interest at 4.50%.

(b) Lease obligation (laboratory equipment), due in monthly installments of $1,793 beginning in August 2020, including interest at 4.25%.

(c) Lease obligation (firewall equipment), due in monthly installments of $280, including interest at an imputed rate of 8.00%. This lease was fully paid off during 2022.

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

Year Ending December 31,	Principal	Interest	Total
2024	$ 72,360	6,421	78,781
2025	66,621	3,195	69,816
2026	37,543	635	38,178
Total	$ 176,524	10,251	186,775

(Continued)

(11) Subscription Obligations

The Hospital has subscription-based information technology arrangements (SBITAs).

Subscription obligation activity of the Hospital for the years ended December 31, 2023 and 2022 consisted of the following:

	2022	Additions	Reductions	2023	Due Within One Year
Subscription obligation	$ 787,919	-	(285,683)	502,236	297,322
Less current installments	285,683			297,322	
Subscription obligation, excluding current installments	$ 502,236			204,914	

	2021	Additions	Reductions	2022	Due Within One Year
Subscription obligation	$ 1,062,419	-	(274,500)	787,919	285,683
Less current installments				285,683	
Subscription obligation, excluding current installments				$ 502,236	

The Hospital has one SBITA, the term of which expires in 2025. The subscription requires monthly payments of $26,000. The Hospital established the subscription asset and liability using an imputed interest rate of 4.0%.

Scheduled principal and interest payments on subscription obligations are as follows:

Year Ending December 31,	Principal	Interest
2024	$ 297,322	14,678
2025	204,914	3,086
Total	$ 502,236	17,764

(Continued)

(12) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) which provides $500,000 of coverage per occurrence and $1,500,000 aggregate coverage. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 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.

(13) 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 $109,704 and $107,124 in 2023 and 2022, respectively. Hospital contributions under both plans totaled $87,486 and $80,371 in 2023 and 2022, respectively.

(14) Adoption of GASB 96

Effective January 1, 2023, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for information technology subscriptions by governments. This Statement increases the usefulness of a government's financial statements by requiring recognition of certain subscription assets and liabilities for subscriptions that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented.

(Continued)

As a result, the Hospital was required to retroactively restate the December 31, 2022 amounts as follows:

	As Restated	Previously Reported	Effect of Adoption
Statement of financial position:			
Subscription assets, net	$ 772,668	-	772,668
Current installment of subscription liability	285,683	-	285,683
Subscription liability	502,236	-	502,236
Net position - net investment in capital assets	(533,073)	(517,822)	(15,251)
Statement of revenues, expenses and changes in net position:			
Supplies and other	2,068,489	2,380,490	(312,001)
Depreciation and amortization	1,007,317	717,566	289,751
Interest	(235,310)	(197,809)	(37,501)
Increase in net assets	122,017	137,268	(15,251)
Net position, end of year	5,124,918	5,140,169	(15,251)
Statement of cash flows:			
Cash paid to suppliers	(1,931,545)	(2,243,546)	312,001
Net cash used by operating activities	(1,009,841)	(1,321,842)	312,001
Principal payments on subscription liabilities	(274,500)	-	(274,500)
Interest paid	(235,378)	(197,877)	(37,501)
Net cash used in capital and related financial activities	(698,794)	(386,793)	(312,001)
Operating loss	(1,375,463)	(1,397,713)	22,250
Depreciation and amortization	1,007,317	717,566	289,751

(15) Reclassification

The Hospital's 2022 financial statements have been reclassified to conform with 2023 presentation.

JEWELL COUNTY HOSPITAL

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass Through Entity Identifying Number	Total Federal Expenditures
United States Department of Agriculture:			
Direct Award,			
Community Facilities Loans and Grants			
Cluster Community Facilities Loans and Grants	10.766	N/A	$ 7,833,375
Passed Through the State of Kansas			
Department of Health and Environment,			
Small Rural Hospital Improvement Program	93.301	N/A	11,138
Total Expenditures of Federal Awards			$ 7,844,513

See accompanying notes to Schedule of Expenditures of Federal Awards.

* * * * * *

(Continued)

JEWELL COUNTY HOSPITAL

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

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, 2023. 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

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

C. USDA Loans

The ending outstanding balance as of December 31, 2023 was as follows:

Program/ Cluster Name	Federal Financial Assistance Listing Number	Outstanding Balance
Department of Agriculture – Community Facilities Loans and Grants Cluster	10.766	$ 7,668,634

D. Indirect Cost Rate

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

DA&E DOHMAN, AKERLUND & EDDY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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
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), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated March 13, 2025.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 through 2023-002 that we consider to be material weaknesses.

* * * * * *

(Continued)

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Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hospital's Responses to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Hospital's responses to the findings identified in our audit and 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 the financial statements and, accordingly, we express no opinion on the responses.

* * * * * *

Other Reporting and Operating Comments

The following comment is directed not to deficiencies in internal control, but to our observations of Hospital operations and the financial reporting system in general:

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.

* * * * * *

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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 13, 2025

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

The Board of Trustees
Jewell County Hospital
Mankato, Kansas:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Jewell County Hospital's (the Hospital) 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 Hospital's major federal programs for the year ended December 31, 2023. 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.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

(Continued)

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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 grant agreements applicable to the Hospital'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 Hospital'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 Hospital'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 Hospital'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 Hospital'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 Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

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.

(Continued)

Report on Internal Control Over Compliance

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

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

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

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.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 13, 2025

JEWELL COUNTY HOSPITAL

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified Opinion
Internal control over financial reporting:	
Material weakness(es) identified?	_X_ Yes ___ No
Significant deficiency(ies) identified?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified?	___ Yes _X_ None reported
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 2 CFR Section 200.516(a)	__ Yes _X_ No

Identification of major programs:

Federal Financial Assistance Listing	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 _X_ No

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING 2023-001 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.

(Continued)

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.

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.

The payroll deposit listing is not reviewed before it is sent to the bank to be processed for direct deposit.

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 2023-002 GAAP FINANCIAL STATEMENT PREPARATION

Criteria

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

Condition

The preparation of the 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.

(Continued)

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

None reported.

JEWELL COUNTY HOSPITAL

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2023

FINDING 2022-001 SEGREGATION OF DUTIES

Condition

The finding was a material weakness. Not all major accounting areas have complete segregation of duties.

Recommendation

The size of the Hospital and its staff sometimes limits the application of adequate segregation of duties. The auditors suggested that 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.

Current status

See current year finding 2023-001 for the current status of this finding. Management understands these limited personnel control deficiencies and will continue to review and implement procedural changes to improve controls as economically feasible.

FINDING 2022-002 FINANCIAL STATEMENT PREPARATION - GAAP

Condition

The finding was a material weakness regarding the fact that Hospital management does not currently possess the qualifications to fully accomplish preparation of the Hospital's year-end financial statements in accordance with GAAP without assistance from the auditors.

Recommendation

The auditors suggested management 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.

Current status

Although a current year finding still exists related to this matter, the Hospital has worked on its overall knowledge base and accounting processes related to this matter. See current year finding 2023-002 for the current status of this finding.