

**Board of Trustees of Republic County Hospital  
A Component Unit of Republic County, Kansas**

Independent Auditor's Report and Financial Statements

September 30, 2019 and 2018

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**September 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Trustees  
Board of Trustees of Republic County Hospital  
Belleville, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Republic County Hospital (Board of Trustees), a component unit of Republic County, Kansas, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Board of Trustees of Republic County Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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. Those standards require that we plan and perform the audit 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 the 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 the Board of Trustees of Republic County Hospital as of September 30, 2019 and 2018, 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.

***Required Supplementary Information***

The Board of Trustees has omitted the management's discussion and analysis information 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 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.

*BKD, LLP*

Wichita, Kansas  
March 6, 2020

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Balance Sheets**  
**September 30, 2019 and 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash	\$ 858,666	\$ 927,884
Short-term certificates of deposit	250,000	-
Due from Hospital	80,104	79,862
Interest receivable	1,560	158
Intergovernmental receivable	269,385	182,315
Notes receivable	6,000	5,500
Total current assets	1,465,715	1,195,719
<b>Certificates of Deposit</b>	535,203	282,349
<b>Noncurrent Cash and Investments</b>		
Funds held by County for construction/debt service	18,229	18,585
Permanently restricted funds	412,871	412,871
	431,100	431,456
<b>Capital Assets, Net</b>	558,382	616,438
<b>Due From Hospital</b>	108,229	188,333
Total assets	\$ 3,098,629	\$ 2,714,295

## Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 120,104	\$ 119,862
Interest payable	6,120	6,120
Deposits	2,500	3,000
Due to Hospital	2,015	6,876
	<hr/>	<hr/>
Total current liabilities	130,739	135,858
<b>Long-term Debt, Less Current Maturities</b>	<hr/>	<hr/>
	398,229	518,333
Total liabilities	<hr/>	<hr/>
	528,968	654,191
<b>Net Position</b>		
Net investment in capital assets	228,382	246,438
Restricted nonexpendable permanent endowments	412,871	412,871
Unrestricted	1,928,408	1,400,795
	<hr/>	<hr/>
Total net position	2,569,661	2,060,104
Total liabilities and net position	<hr/> <hr/>	<hr/> <hr/>
	\$ 3,098,629	\$ 2,714,295

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Clinic revenue	\$ 68,622	\$ 81,959
Independent living revenue	116,340	109,206
Noncapital appropriations - Republic County	1,082,020	988,106
Other	<u>7,881</u>	<u>54,341</u>
Total operating revenues	<u>1,274,863</u>	<u>1,233,612</u>
<b>Operating Expenses</b>		
Clinic expense	77,443	132,770
Independent living expense	53,812	68,020
Board expense	9,229	8,433
Depreciation	<u>58,056</u>	<u>59,511</u>
Total operating expenses	<u>198,540</u>	<u>268,734</u>
<b>Operating Income</b>	<u>1,076,323</u>	<u>964,878</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	12,547	4,233
Contribution to Hospital for operations	(563,588)	(674,748)
Interest expense	(15,725)	(17,426)
Impairment loss	<u>-</u>	<u>(8,158)</u>
Total nonoperating revenues (expenses)	<u>(566,766)</u>	<u>(696,099)</u>
<b>Increase in Net Position</b>	509,557	268,779
<b>Net Position, Beginning of Year</b>	<u>2,060,104</u>	<u>1,791,325</u>
<b>Net Position, End of Year</b>	<u><u>\$ 2,569,661</u></u>	<u><u>\$ 2,060,104</u></u>

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Statements of Cash Flows**  
**Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Patient and resident revenue	\$ 184,962	\$ 191,165
Noncapital appropriations - Republic County	994,950	1,042,646
Other revenue	7,381	54,906
Other payments	<u>(145,845)</u>	<u>(201,847)</u>
Net cash provided by operating activities	<u>1,041,448</u>	<u>1,086,870</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Contributions to Hospital for operations	<u>(563,588)</u>	<u>(674,748)</u>
Net cash used in noncapital financing activities	<u>(563,588)</u>	<u>(674,748)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(40,000)	(40,000)
Interest paid on long-term debt	<u>(15,725)</u>	<u>(17,426)</u>
Net cash used in capital and related financing activities	<u>(55,725)</u>	<u>(57,426)</u>
<b>Cash Flows From Investing Activities</b>		
Investment income	11,145	4,423
Change in certificates of deposit	(502,854)	271,886
Change in funds held by County	<u>356</u>	<u>3,060</u>
Net cash provided by (used in) investing activities	<u>(491,353)</u>	<u>279,369</u>
<b>Increase (Decrease) in Cash</b>	(69,218)	634,065
<b>Cash, Beginning of Year</b>	<u>927,884</u>	<u>293,819</u>
<b>Cash, End of Year</b>	<u>\$ 858,666</u>	<u>\$ 927,884</u>



**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating income	\$ 1,076,323	\$ 964,878
Depreciation	58,056	59,511
Change in assets and liabilities		
Intergovernmental receivable	(87,070)	54,540
Notes receivable	(500)	500
Deposits	(500)	565
Due to Hospital	(4,861)	6,876
Net cash provided by operating activities	<b>\$ 1,041,448</b>	<b>\$ 1,086,870</b>

**Supplemental Cash Flows Information**

Capital lease principal payments made by Great Plains of Republic County, Inc. on subleases	\$ 79,862	\$ 66,863
Capital lease additions subleased to Great Plains of Republic County, Inc.	\$ -	\$ 135,260

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

The Board of Trustees of Republic County Hospital (Board of Trustees) was organized by the County Commissioners of Republic County, Kansas to operate a governmental hospital and to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Republic County and is considered to be a component unit of Republic County (County). The Board of Trustees owns and rents a medical clinic building and independent living apartments.

Great Plains of Republic County, Inc. (GPRC/Hospital) is located in Belleville, Kansas and provides acute, swing-bed and long-term care services under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. seq. with the Board of Trustees (*Note 6*). The operations of the Hospital are reported separately from the Board of Trustees due to this lease agreement.

***Basis of Accounting and Presentation***

The financial statements of the Board of Trustees 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 transactions take place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include noncapital appropriations – Republic County and exchange transactions. Contributions, investment income (loss) and contributions to Hospital for operations are included in nonoperating revenues (expenses).

***Use of Estimates***

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

***Cash Equivalents***

The Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at September 30, 2019 and 2018.

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Board of Trustees:

Land improvements	10 – 25 years
Buildings	5 – 40 years
Fixed equipment	7 – 20 years
Moveable equipment	10 – 15 years

Maintenance, repairs and renewals which neither materially add to the value of the capital assets nor appreciably prolong the life are charged to expense as incurred. Gains or losses on dispositions of capital assets are included in operations.

**Capital Asset Impairment**

The Board of Trustees evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

Impairment losses of \$0 and \$8,158 were recognized for the years ended September 30, 2019 and 2018

**Noncapital Appropriations – Republic County – Property and Sales Taxes**

The Board of Trustees receives tax appropriations from the County. Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are assessed to the extent such taxes are collected and available for use. Amounts not yet received as of fiscal year-end are reflected on the balance sheets as intergovernmental receivables.

Sales tax revenue is recognized based on sales tax collected by the County’s retailers in the Board of Trustees’ accounting period. The sales tax is permanent and is 1% of sales taxable transactions.

Revenue for property taxes and sales taxes are reported as non-capital appropriations – Republic County in the Statements of Revenues, Expenses and Changes in Net Position. Property and sales tax revenues were \$359,181 and \$622,269, respectively, in 2019 and \$450,000 and \$579,146, respectively, in 2018.

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

***Net Position***

Net position of the Board of Trustees is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Board of Trustees, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Income Taxes***

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

**Note 2: Deposits and Investments**

***Deposits***

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

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

The Board of Trustees maintains its bank deposits (checking and saving accounts and certificates of deposit) with financial institutions which, at times, exceed federally insured limits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Board of Trustees is periodically reviewed and the Board of Trustees believes it is not exposed to any significant credit risk on these balances.

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

At September 30, 2019 and 2018, respectively, \$806,927 and \$796,483 of the Board of Trustees' bank balances of \$2,056,740 and \$1,623,104 were exposed to custodial credit risk as follows:

	<b>2019</b>	<b>2018</b>
Uninsured and uncollateralized	\$ 20,768	\$ -
Uninsured and collateral held on behalf of the pledging financial institution in the Board of Trustees' name	786,159	796,483
	\$ 806,927	\$ 796,483

**Summary of Carrying Values**

The carrying values of deposits shown above are included in the balance sheets at September 30, 2019 and 2018, as follows:

	<b>2019</b>	<b>2018</b>
Carrying value Deposits	\$ 1,806,740	\$ 1,623,104
	<b>2019</b>	<b>2018</b>
Included in the following balance sheet captions		
Cash	\$ 858,666	\$ 927,884
Certificates of deposit	535,203	282,349
Permanently restricted funds	412,871	412,871
	\$ 1,806,740	\$ 1,623,104

**Note 3: Noncurrent Cash and Investments**

Assets limited as to use include (1) funds held by the County for construction/debt service and (2) funds permanently restricted by donors. Permanently restricted funds consist of certificates of deposit and represent assets subject to donor-imposed stipulations that are required to be maintained permanently by the Board of Trustees.

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Note 4: Capital Assets**

Capital assets activity for the years ended September 30, was:

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land and improvements	\$ 311,774	\$ -	\$ -	\$ -	\$ 311,774
Buildings	1,988,829	-	(17,734)	-	1,971,095
Fixed equipment	306,886	-	-	-	306,886
Moveable equipment	26,184	-	-	-	26,184
	<u>2,633,673</u>	<u>-</u>	<u>(17,734)</u>	<u>-</u>	<u>2,615,939</u>
Less accumulated depreciation					
Land improvements	255,527	8,326	-	-	263,853
Buildings	1,429,848	49,036	(17,734)	-	1,461,150
Fixed equipment	305,676	694	-	-	306,370
Moveable equipment	26,184	-	-	-	26,184
	<u>2,017,235</u>	<u>58,056</u>	<u>(17,734)</u>	<u>-</u>	<u>2,057,557</u>
Capital Assets, Net	<u>\$ 616,438</u>	<u>\$ (58,056)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 558,382</u>
	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land and improvements	\$ 311,774	\$ -	\$ -	\$ -	\$ 311,774
Buildings	2,013,029	-	(24,200)	-	1,988,829
Fixed equipment	306,886	-	-	-	306,886
Moveable equipment	26,184	-	-	-	26,184
	<u>2,657,873</u>	<u>-</u>	<u>(24,200)</u>	<u>-</u>	<u>2,633,673</u>
Less accumulated depreciation					
Land improvements	246,455	9,072	-	-	255,527
Buildings	1,396,145	57,903	(24,200)	-	1,429,848
Fixed equipment	304,982	694	-	-	305,676
Moveable equipment	26,184	-	-	-	26,184
	<u>1,973,766</u>	<u>67,669</u>	<u>(24,200)</u>	<u>-</u>	<u>2,017,235</u>
Capital Assets, Net	<u>\$ 684,107</u>	<u>\$ (67,669)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 616,438</u>

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Note 5: Long-term Debt/Due From Hospital**

The following is a summary of long-term debt transactions for the Board of Trustees for the years ended September 30, 2019 and 2018:

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Hospital Revenue Bonds					
Series 2011	\$ 370,000	\$ -	\$ (40,000)	\$ 330,000	\$ 40,000
Capital lease obligations	268,195	-	(79,862)	188,333	80,104
Total long-term debt	<u>\$ 638,195</u>	<u>\$ -</u>	<u>\$ (119,862)</u>	<u>\$ 518,333</u>	<u>\$ 120,104</u>
	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Hospital Revenue Bonds					
Series 2011	\$ 410,000	\$ -	\$ (40,000)	\$ 370,000	\$ 40,000
Capital lease obligations	199,798	135,260	(66,863)	268,195	79,862
Total long-term debt	<u>\$ 609,798</u>	<u>\$ 135,260</u>	<u>\$ (106,863)</u>	<u>\$ 638,195</u>	<u>\$ 119,862</u>

**Revenue Bonds Payable – Series 2011**

The Series 2011 bonds payable consist of Hospital Revenue Bonds (Bonds) in the original amount of \$600,000 dated July 2011, with interest of 4.25%. The Bonds are payable in annual installments through June 2026. Outstanding bonds are redeemable at the Board of Trustees' option at any time at a redemption price of 100%.

Scheduled principal repayments on the revenue bond obligations as of September 30, 2019, were as follows:

<b>Year Ending September 30,</b>	<b>Total to be</b>		
	<b>Paid</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 54,025	\$ 40,000	\$ 14,025
2021	57,324	45,000	12,324
2022	55,413	45,000	10,413
2023	53,500	45,000	8,500
2024	56,588	50,000	6,588
2025 - 2026	111,800	105,000	6,800
	<u>\$ 388,650</u>	<u>\$ 330,000</u>	<u>\$ 58,650</u>

**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Capital Lease Obligations**

The Board of Trustees is obligated under leases for equipment that are accounted for as capital leases. The Board of Trustees has subleased the equipment to GPRC. The following is a schedule by year of future minimum lease payments under the capital leases including interest ranging from 3.40% to 3.82% together with the present value of the future minimum lease payments as of September 30, 2019:

Year Ending September 30,			
2020	\$	85,772	
2021		55,098	
2022		45,317	
2023		12,415	
Total minimum lease payments		198,602	
Less amount representing interest		(10,269)	
Present value of future minimum lease payments	\$	188,333	
Current portion	\$	80,104	
Noncurrent portion		108,229	
	\$	188,333	

Due from Hospital in the accompanying balance sheets represents the amounts due to the Board of Trustees in connection with the subleases referred to above.

**Note 6: Lease and Management Agreement**

The Board of Trustees controls facilities, including buildings, as well as equipment and other assets, which are owned by Republic County, Kansas, and leased to GPRC by the Board of Trustees. The lease agreement provides that GPRC will assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. The original lease term was for a period of five years through September 30, 2005, with two renewal option periods of five years each. The lease was renewed on January 1, 2016, for a period of five years through December 31, 2020, with two renewal option periods of five years each. The Board of Trustees leases the hospital facilities to GPRC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPRC, has a management agreement with GPRC. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPRC upon commencement of the original term, October 1, 2000. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the Board of Trustees.



**Board of Trustees of Republic County Hospital**  
**A Component Unit of Republic County, Kansas**  
**Notes to Financial Statements**  
**September 30, 2019 and 2018**

**Note 7: Future Change in Accounting Principle**

***Leases***

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Board of Trustees is evaluating the impact the statement will have on the financial statements.

**Note 8: Commitment**

The Board of Trustees entered into a contract in October 2019 to upgrade the HVAC system of the Hospital. Approximately, \$2,544,000 has been committed to this project which will be financed by a note payable to a bank.