

**Independent Auditor's Report and Financial Statements
Hospital District #1 of Crawford County, Kansas
December 31, 2019 and 2018**

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Independent Auditor's Report

The Board of Trustees
Hospital District #1 of Crawford County, Kansas

We have audited the accompanying financial statements of the business-type activity of Hospital District #1 of Crawford County, Kansas (Hospital), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the 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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 qualified audit opinion.

Basis For Qualified Opinion

The 2019 and 2018 financial statements referred to above do not include financial data of the Hospital District #1 Crawford County Foundation (Foundation), a component unit of the Hospital based on the nature and significance of the relationship between the Hospital and the Foundation. Although the Hospital does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2019 and 2018, the component unit's assets and net assets would be approximately \$269,000 and \$221,000, respectively; and there would be an increase in component unit net assets of approximately \$48,000 and a decrease in component unit net assets of approximately \$9,000 in 2019 and 2018, respectively.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Hospital District #1 of Crawford County, Kansas, as of December 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Hospital has omitted a 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hospital District #1 of Crawford County, Kansas, basic financial statements as a whole. The supplementary information presented on pages 19 through 23 is 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 24 is presented solely as supplementary information. This data has been summarized from Hospital records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
April 10, 2020

Financial Statements

Hospital District #1 of Crawford County, Kansas
Statements of Net Position
December 31,

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and invested cash	\$ 3,184,592	\$ 3,308,451
Patient accounts receivable, net of allowance for doubtful accounts of \$653,000 in 2019 and \$717,000 in 2018 (Note A4)	2,526,541	1,926,694
Accounts receivable - other	331,744	224,411
Estimated settlements due from third-party payors (Note B)		175,000
Inventories (Note A5)	449,238	445,893
Prepaid expenses	400,868	378,191
Assets whose use is limited - required for current liabilities (Note D)	<u>309,546</u>	<u>310,746</u>
Total current assets	<u>7,202,529</u>	<u>6,769,386</u>
Assets whose use is limited		
By Board of Trustees (Note C)	675,410	285,179
By donor for capital equipment (Note C)	975,000	975,000
By bond resolution (Note D)	<u>1,139,623</u>	<u>1,125,338</u>
	2,790,033	2,385,517
Less amounts required for current liabilities	<u>309,546</u>	<u>310,746</u>
Noncurrent assets whose use is limited	<u>2,480,487</u>	<u>2,074,771</u>
Capital assets, net (Notes A6, E, F, and G)	<u>6,493,320</u>	<u>7,620,120</u>
Other assets		
Other investments, at cost	<u>35,100</u>	<u>35,100</u>
Total assets	<u>16,211,436</u>	<u>16,499,377</u>
Deferred outflows of resources		
Deferred outflows on advance refunding	<u>475,007</u>	<u>541,585</u>
Total assets and deferred outflows of resources	<u>\$ 16,686,443</u>	<u>\$ 17,040,962</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current portion of capital lease obligations (Note F)	\$ 128,079	\$ 123,815
Current portion of long-term debt (Note G)	538,648	566,585
Accounts payable and other accrued liabilities	443,783	336,239
Accrued payroll and related deductions	628,621	576,368
Accrued paid time off (Note A10)	399,883	415,826
Estimated settlements due to third-party payors (Note B)	260,000	
Accrued interest payable	<u>129,997</u>	<u>136,699</u>
Total current liabilities	<u>2,529,011</u>	<u>2,155,532</u>
Capital lease obligations, excluding current portion (Note F)	<u>10,021</u>	<u>138,100</u>
Long-term debt, less current portion (Note G)	<u>10,303,971</u>	<u>10,911,960</u>
Total liabilities	<u>12,843,003</u>	<u>13,205,592</u>
Net position (Note A9)		
Invested in capital assets, net of related debt	(4,487,397)	(4,120,339)
Restricted for capital equipment	975,000	975,000
Restricted for debt service (Note D)	1,139,623	1,125,338
Unrestricted	<u>6,216,214</u>	<u>5,855,371</u>
Total net position	<u>3,843,440</u>	<u>3,835,370</u>
Total liabilities and net position	<u>\$ 16,686,443</u>	<u>\$ 17,040,962</u>

Hospital District #1 of Crawford County, Kansas
Statements of Revenue, Expenses, and Changes in Net Position
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 17,308,321	\$ 16,506,204
Other	<u>1,095,288</u>	<u>973,747</u>
Total operating revenues	<u>18,403,609</u>	<u>17,479,951</u>
Operating expenses		
Salaries and wages	9,557,982	9,280,925
Employee benefits	2,361,284	2,202,573
Purchased services and professional fees	1,793,652	1,715,031
Leases and rentals	167,421	164,908
Other supplies and expenses	3,404,133	3,313,745
Depreciation and amortization	<u>1,242,691</u>	<u>1,345,260</u>
Total operating expenses	<u>18,527,163</u>	<u>18,022,442</u>
Operating loss	<u>(123,554)</u>	<u>(542,491)</u>
Nonoperating revenues (expenses)		
Investment income	89,466	58,999
Noncapital contributions	595	
Ad valorem taxes	450,940	318,589
Interest expense	(447,951)	(453,638)
Gain on disposal of capital assets	<u>710</u>	<u>710</u>
Nonoperating revenues (expenses), net	<u>93,050</u>	<u>(75,340)</u>
Expenses in excess of revenues before capital contributions	(30,504)	(617,831)
Capital contributions	<u>38,574</u>	<u>62,383</u>
Increase (decrease) in net position	8,070	(555,448)
Net position at beginning of year	<u>3,835,370</u>	<u>4,390,818</u>
Net position at end of year	<u>\$ 3,843,440</u>	<u>\$ 3,835,370</u>

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 17,143,474	\$ 16,932,788
Payments to or on behalf of employees	(11,882,956)	(11,417,994)
Payments for supplies and services	(5,283,684)	(5,254,836)
Other receipts and payments	<u>987,955</u>	<u>990,288</u>
Net cash provided by operating activities	<u>964,789</u>	<u>1,250,246</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	450,940	318,589
Noncapital contributions	<u>595</u>	<u> </u>
Net cash provided by noncapital financing activities	<u>451,535</u>	<u>318,589</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(115,891)	(398,915)
Proceeds from disposals of equipment		710
Repayments on capital lease obligations	(123,815)	(137,684)
Repayment of long-term debt	(566,585)	(427,159)
Receipt of contributions restricted for capital assets	38,574	62,383
Interest paid on long-term debt	<u>(457,416)</u>	<u>(346,906)</u>
Net cash used by capital and related financing activities	<u>(1,225,133)</u>	<u>(1,247,571)</u>
Cash flows from investing activities		
Investment income	<u>89,466</u>	<u>58,999</u>
Net cash provided by investing activities	<u>89,466</u>	<u>58,999</u>
Change in cash and cash equivalents	280,657	380,263
Cash and cash equivalents at beginning of year	<u>5,693,968</u>	<u>5,313,705</u>
Cash and cash equivalents at end of year	<u>\$ 5,974,625</u>	<u>\$ 5,693,968</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 3,184,592	\$ 3,308,451
Cash included in assets whose use is limited	<u>2,790,033</u>	<u>2,385,517</u>
	<u>\$ 5,974,625</u>	<u>\$ 5,693,968</u>

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (123,554)	\$ (542,491)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	1,242,691	1,345,260
Provision for bad debts	1,017,050	1,132,253
Changes in		
Patient receivables	(1,616,897)	(763,669)
Other receivables	(107,333)	16,541
Estimated settlements due to/from third-party payors	435,000	58,000
Inventories	(3,345)	32,929
Prepaid expenses	(22,677)	(22,888)
Accounts payable and accrued expenses	107,544	(71,193)
Accrued payroll and related deductions	52,253	54,866
Accrued paid time off	(15,943)	10,638
	<u>\$ 964,789</u>	<u>\$ 1,250,246</u>
Net cash provided by operating activities	<u>\$ 964,789</u>	<u>\$ 1,250,246</u>

The accompanying notes are an integral part of these statements.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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

A summary of the reporting entity and significant accounting policies of Hospital District #1 of Crawford County, Kansas, consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Hospital District #1 of Crawford County, Kansas (Hospital), is a municipal corporation operating an acute-care hospital located in Girard, Kansas, with a licensed bed capacity of 25 acute-care beds and 10 geriatric psych beds. The Hospital also provides outpatient and home health service to the community and surrounding areas. The Hospital is governed by an elected five-member Board of Trustees.

2. Basis of accounting

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

3. Use of estimates

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

4. Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

5. Inventories

Inventories are stated at cost as determined using the average cost method.

6. Capital assets

Capital asset acquisitions in excess of \$5,000 (including assets recorded as capital leases) are capitalized and stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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

7. Costs of borrowing

Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the principal outstanding method over the term of the related debt.

8. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

9. Net position

The net position of the Hospital is presented in the following four components:

- Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted for debt service - Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.
- Restricted expendable net position - Restricted expendable net position is noncapital net position that must be used for the purchase of capital assets in accordance with donor restrictions.
- Unrestricted - Unrestricted net position is the remaining net position that does not meet the definitions of the other three components of net position.

10. Compensated absences

Hospital policies permit most employees to accumulate benefits (including paid time away from work to use for personal business, vacation, illness, and holidays) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

11. Operating revenues and expenses

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

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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

12. Net patient service revenue

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

13. Charity care

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

14. Ad valorem taxes

The Hospital receives financial support from ad valorem taxes. The ad valorem taxes are used for the purchase of capital assets. Ad valorem taxes are assessed in November of each year and are available for use by the Hospital in the following year.

15. Income taxes

The Hospital is classified as a political subdivision under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 and is not required to file federal income tax returns.

16. Cash and cash equivalents

The Hospital considers all cash and invested cash, including any amounts included in assets whose use is limited, to be cash equivalents for the purposes of the cash flow statement.

Note B - Reimbursement Programs

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

Medicare - Inpatient and outpatient acute care services and skilled nursing swing-bed services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Inpatient geriatric psychology services are paid based on prospectively determined per diem rates. Home health and other physician services rendered to Medicare beneficiaries are paid based on prospectively determined rates.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note B - Reimbursement Programs - Continued

The Hospital is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2017.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 33,119,532	\$ 32,018,280
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(14,631,004)	(14,297,663)
Provision for bad debts	(1,017,050)	(1,132,253)
Charity care	<u>(163,157)</u>	<u>(82,160)</u>
Net patient service revenue	<u>\$ 17,308,321</u>	<u>\$ 16,506,204</u>

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2019 and 2018, was \$163,157 and \$82,160, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost reports, was \$87,382 and \$43,993 for 2019 and 2018, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note B - Reimbursement Programs - Continued

The Hospital recognizes revenue for EHR incentives when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs.

Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$68,925 and \$103,388 of revenue from Medicaid related to EHR incentives in 2019 and 2018, respectively. This amount is included with other operating revenues on the statement of revenue, expenses, and changes in net position.

The Hospital incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Hospital's recognition of EHR incentives as revenue.

Note C - Assets Whose use is Limited by Board of Trustees and Donors

Assets whose use is limited by Board of Trustees and donors consist of invested cash and certificates of deposit which are to be used for replacement of capital assets or for the purchase of additional capital assets. The funds designated by the Board may be used for other purposes by action of the Board of Trustees.

Note D - Assets Whose use is Limited by Bond Resolution

Assets whose use is limited by bond resolution at December 31, 2019 and 2018, consist of required accounts to be maintained by the Hospital under the terms of the Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016 and Refunding Revenue Bonds, Series 2017 resolutions (see Note G).

Funds held in these accounts consist of invested cash and are summarized as follows:

	<u>2019</u>	<u>2018</u>
Debt service account - Series 2016 and 2017	\$ 309,546	\$ 310,746
Debt service reserve fund - Series 2017	<u>830,077</u>	<u>814,592</u>
	1,139,623	1,125,338
Less amounts required for current liabilities	<u>309,546</u>	<u>310,746</u>
	<u><u>\$ 830,077</u></u>	<u><u>\$ 814,592</u></u>

Under the terms of the Series 2017 bond resolution, the debt service account is to be used for payment of principal and interest on the bonds. The debt service reserve account is to be used to prevent any default in the payment of principal and interest on the bonds.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note E - Capital Assets

Hospital capital asset additions, retirements, and balances are as follows:

	2019			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land and land improvements	\$ 905,067	\$ 22,735	\$ -	\$ 927,802
Buildings	9,994,156			9,994,156
Fixed equipment	7,181,773			7,181,773
Major movable equipment	7,387,735	93,156		7,480,891
Leasehold improvements	<u>133,366</u>			<u>133,366</u>
Totals at historical cost	<u>25,602,097</u>	<u>115,891</u>	<u>-</u>	<u>25,717,988</u>
Less accumulated depreciation and amortization				
Buildings	7,010,224	410,703		7,420,927
Fixed equipment	4,183,177	313,843		4,497,020
Major movable equipment	6,137,126	500,112		6,637,238
Leasehold improvements	<u>651,450</u>	<u>18,033</u>		<u>669,483</u>
	<u>17,981,977</u>	<u>1,242,691</u>	<u>-</u>	<u>19,224,668</u>
Capital assets, net	<u>\$ 7,620,120</u>	<u>\$ (1,126,800)</u>	<u>\$ -</u>	<u>\$ 6,493,320</u>
	2018			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land and improvements	\$ 870,184	\$ 34,883	\$ -	\$ 905,067
Buildings	9,994,156			9,994,156
Fixed equipment	7,181,773			7,181,773
Major movable equipment	6,937,788	457,707	(7,760)	7,387,735
Leasehold improvements	133,366			133,366
Projects in progress	<u>93,675</u>	<u>(93,675)</u>		
Totals at historical cost	<u>25,210,942</u>	<u>398,915</u>	<u>(7,760)</u>	<u>25,602,097</u>
Less accumulated depreciation and amortization				
Buildings	6,528,716	481,508		7,010,224
Fixed equipment	3,841,387	341,790		4,183,177
Major movable equipment	5,654,355	490,531	7,760	6,137,126
Leasehold improvements	<u>620,019</u>	<u>31,431</u>		<u>651,450</u>
	<u>16,644,477</u>	<u>1,345,260</u>	<u>7,760</u>	<u>17,981,977</u>
Capital assets, net	<u>\$ 8,566,465</u>	<u>\$ (946,345)</u>	<u>\$ -</u>	<u>\$ 7,620,120</u>

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note F - Leases

The Hospital leases certain property and equipment under long-term lease arrangements. Capital assets and accumulated depreciation and amortization include the following amounts for leases that have been capitalized:

	<u>2019</u>
Capital assets	\$ 649,829
Less accumulated depreciation and amortization	<u>443,783</u>
	<u>\$ 206,046</u>

The following is a schedule of future minimum lease payments under capital leases:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 128,079	\$ 2,703	\$ 130,782
2021	<u>10,021</u>	<u>28</u>	<u>10,049</u>
	<u>\$ 138,100</u>	<u>\$ 2,731</u>	140,831
Less interest			<u>2,731</u>
			138,100
Less current portion			<u>128,079</u>
			<u>\$ 10,021</u>

The following is a summary of changes in capital lease obligations:

Principal outstanding at January 1, 2018	\$ 399,599
2018 payments on capital lease obligations	<u>(137,684)</u>
Principal outstanding at December 31, 2018	261,915
2019 payments on capital lease obligations	<u>(123,815)</u>
Principal outstanding at December 31, 2019	<u>\$ 138,100</u>

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense under operating leases in 2019 and 2018, was approximately \$167,000 and \$165,000, respectively.

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note F - Leases - Continued

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2019, that have initial or remaining lease terms in excess of one year:

2020	\$ 92,520
2021	<u>15,420</u>
	<u>\$ 107,940</u>

Note G - Long-Term Debt

Hospital long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
0% Note payable to Heartland Rural Electric Coop, issued in September 2009, in the original amount of \$600,000, with an administrative fee of 1% of the unpaid balance due annually starting at the inception of the note due to Heartland Rural Electric Coop, and an administrative fee of 1%. The note was paid off on August 30, 2019	\$ -	\$ 44,444
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016, issued on March 30, 2016, in the original amount of \$2,605,000, variable interest rate of 2.93%	2,342,898	2,400,039
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2017, issued on December 28, 2017, in the original amount of \$8,775,000, interest rate of 4.00%	<u>8,005,000</u>	<u>8,470,000</u>
	10,347,898	10,914,483
Net unamortized bond premium	494,721	564,062
Less current maturities	<u>(538,648)</u>	<u>(566,585)</u>
	<u>\$ 10,303,971</u>	<u>\$ 10,911,960</u>

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note G - Long-Term Debt - Continued

The Series 2016 refunding revenue bonds were issued for the purpose of refunding the Series 2009B bonds. The Series 2016 refunding revenue bonds are due in annual installments of varying amounts with final maturity on September 1, 2034. Interest is payable on September 1 of each year. The initial interest rate on the Series 2016 bonds is 2.93 percent. The rate will be adjusted on September 1, 2025, to the daily yield on 10-year U.S. Treasury obligations, plus 100 basis points, provided that such rate shall not exceed the maximum legal limit for interest rates under K.S.A. 10-1009, as amended.

On December 28, 2017, the Crawford County, Kansas Public Building Commission issued \$8,775,000 in Refunding Revenue Bonds, Series 2017, (the 2017 bonds) on behalf of the Hospital. The proceeds of the 2017 bonds were used to (1) pay the costs related to issuance of the 2017 bonds, and (2) advance refund \$8,540,000 of the 2009-A bonds maturing during the years from 2018 through 2032 by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that will mature and pay interest in amounts and at times that will provide for payment of interest on the refunded 2009-A bonds through September 1, 2019, and to redeem and pay the \$8,540,000 of refunded 2009-A bonds on that date at redemption prices of 100 percent and 102 percent.

The refunding transaction decreased the total amount of future debt service requirements by \$720,465. This resulted in an economic gain of \$639,730. As a result of the transaction, a deferred refunding loss of \$610,560 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

The following is a schedule of future maturities of long-term debt:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 538,648	\$ 389,991	\$ 928,639
2021	560,581	368,858	929,439
2022	582,381	347,058	929,439
2023	604,234	324,405	928,639
2024	630,971	301,068	932,039
2025 - 2029	3,536,197	1,116,998	4,653,195
2030 - 2034	<u>3,894,886</u>	<u>385,921</u>	<u>4,280,807</u>
	<u>\$ 10,347,898</u>	<u>\$ 3,234,299</u>	<u>\$ 13,582,197</u>

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

Principal outstanding at January 1, 2018	\$ 11,341,643
2018 payments on long-term debt	<u>(427,160)</u>
Principal outstanding at December 31, 2018	10,914,483
2019 payments on long-term debt	<u>(566,585)</u>
Principal outstanding at December 31, 2019	<u>\$ 10,347,898</u>

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note G - Long-Term Debt - Continued

The provisions of the 2016 and 2017 Bond Indentures contain covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D) and require the establishment and maintenance of charge rates for Hospital services at such levels so that net revenues available for debt service of the Hospital will not be less than 115 percent of the annual debt service requirements on the Hospital's parity debt obligations.

Note H - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies are renewed through March 27, 2020. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks.

Note I - Deposits with Financial Institutions

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions was \$5,143,068 and the bank balances were \$5,154,130 at December 31, 2019. The bank balances are categorized as follows at December 31, 2019:

Amount insured by the F.D.I.C., or collateralized with the Hospital's name	\$ 654,869
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	4,499,261
	\$ 5,154,130

Hospital District #1 of Crawford County, Kansas
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note J - Defined Contribution Pension Plan

The Hospital sponsors a defined contribution pension plan that provides pension benefits for substantially all of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The Hospital matches employee contributions up to 3 percent of compensation excluding bonuses. The employees can contribute up to the maximum allowed by the Internal Revenue Service. The employees are fully vested in Hospital contributions after five years of service.

For the years ended December 31, 2019 and 2018, the Hospital and covered employees made contributions to the plan as follows:

	<u>2019</u>	<u>2018</u>
Hospital contributions	\$ 146,376	\$ 150,688
Employee contributions	414,127	405,584

Note K - Budgetary Comparison

The Hospital legally adopted a budget for capital fund expenditures for the years ended December 31, 2019 and 2018. Actual capital fund expenditures for the year ended December 31, 2019, were \$115,891 as compared to the legally adopted budgeted expenditures of \$454,500. Actual capital fund expenditures for the year ended December 31, 2018, were \$398,915 as compared to the legally adopted budgeted expenditures of \$405,000.

Note L - Related Party Transactions

Hospital District #1 Crawford County Foundation (Foundation) was established in September 1999. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Hospital. The Foundation donated \$35,603 and \$58,207 in capital contributions to the Hospital during the years ended December 31, 2019 and 2018, respectively.

The Hospital participates in the 340(B) outpatient drug program. One of the pharmacies that the Hospital utilizes for the program is owned by a member of the Hospital's Board of Trustees. Approximately \$39,000 and \$57,000 was recognized as expense related to pharmacy services provided by the pharmacy in 2019 and 2018, respectively.

Note M - Subsequent Events

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

Subsequent to year-end, the Hospital has been negatively impacted by the effects of the worldwide coronavirus pandemic. The Hospital is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Hospital's financial position is not known.

Supplementary Information

Hospital District #1 of Crawford County, Kansas
Net Patient Service Revenue
Year ended December 31,

	2019			2018
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Acute care room	\$ 921,885	\$ 380,500	\$ 1,302,385	\$ 1,175,705
Swing-bed room	209,727		209,727	222,060
Intensive care room	188,778		188,778	162,708
Geriatric psych	2,682,017	169,165	2,851,182	2,946,575
Operating room	528,409	2,581,744	3,110,153	3,034,179
Orthopedic		178,754	178,754	171,218
Anesthesiology	88,476	490,759	579,235	556,462
Radiology	358,101	5,091,451	5,449,552	5,708,899
Laboratory	842,449	5,141,583	5,984,032	5,710,049
Respiratory therapy	34,241	50,757	84,998	91,307
Physical therapy	205,438	1,013,638	1,219,076	1,128,670
Occupational therapy	123,111	254,203	377,314	387,893
Speech therapy	7,630	6,717	14,347	19,856
Pulmonary Rehab		265,498	265,498	160,221
Medical supplies	178,194	332,617	510,811	548,377
Pharmacy	1,437,708	1,413,590	2,851,298	2,631,904
Electrocardiology	64,428	870,953	935,381	989,122
Emergency room	6,891	2,998,766	3,005,657	2,519,762
Home health		616,700	616,700	596,847
Physician clinics	344,594	2,994,315	3,338,910	3,222,509
Community outreach		45,744	45,744	33,957
Gross patient service revenue	<u>\$ 8,222,077</u>	<u>\$ 24,897,454</u>	33,119,532	32,018,280
Contractual adjustments, discounts, and allowances				
Medicare			(7,333,413)	(7,357,568)
Medicaid			(2,262,592)	(2,482,538)
Blue Cross			(2,940,811)	(2,721,132)
Other			(2,094,188)	(1,736,425)
Provision for bad debts			(1,017,050)	(1,132,253)
Charity care			(163,157)	(82,160)
Net patient service revenue			<u>\$ 17,308,321</u>	<u>\$ 16,506,204</u>

**Hospital District #1 of Crawford County, Kansas
Other Revenue
Year ended December 31,**

	<u>2019</u>	<u>2018</u>
Clinic rental	\$ 4,200	\$ 3,800
Cafeteria sales	32,639	28,959
Grants received	20,321	8,032
340(B) drug program	943,214	808,917
EHR incentives	68,925	103,388
Other	<u>25,989</u>	<u>20,651</u>
	<u>\$ 1,095,288</u>	<u>\$ 973,747</u>

Hospital District #1 of Crawford County, Kansas
Operating Expenses
Year ended December 31,

	2019			2018
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Nursing service	\$ 379,237	\$ 104,045	\$ 483,282	\$ 396,816
Intensive care	299,468	9,463	308,931	273,148
Swing-bed	10,667	587	11,254	1,378
Geriatric psych	932,087	183,906	1,115,993	1,224,275
Operating room	334,787	83,189	417,976	425,095
Orthopedic	519,928	48,717	568,645	559,786
Anesthesiology		415,124	415,124	354,235
Radiology	292,719	365,756	658,475	627,212
Laboratory	488,973	496,165	985,138	968,297
Respiratory therapy	38,067	9,038	47,105	57,414
Physical therapy	279,280	11,314	290,594	264,565
Occupational therapy	111,527	2,759	114,286	123,734
Speech therapy		8,392	8,392	11,830
Pulmonary Rehab	216,034	3,819	219,853	199,308
Central supply	73,594	607,185	680,779	692,094
Pharmacy	224,882	688,049	912,931	840,270
Emergency room	1,064,986	36,297	1,101,283	1,062,137
Home health	310,202	18,042	328,244	310,024
Physician clinics	2,177,233	618,407	2,795,640	2,654,719
Depreciation and amortization		1,242,691	1,242,691	1,345,260
Employee benefits		2,361,284	2,361,284	2,202,573
Administrative and general	1,034,286	918,011	1,952,297	1,916,436
Plant operation and maintenance	135,857	444,215	580,072	576,342
Laundry and linen		58,722	58,722	56,850
Housekeeping	177,959	50,018	227,977	248,276
Dietary	193,147	147,804	340,951	338,781
Nursing administration	103,375	1,219	104,594	114,587
Medical records	158,689	33,864	192,553	174,707
Community outreach	998	1,099	2,097	2,293
	<u>\$ 9,557,982</u>	<u>\$ 8,969,181</u>	<u>\$ 18,527,163</u>	<u>\$ 18,022,442</u>

Hospital District #1 of Crawford County, Kansas
Balance in Depository Compared with Depository Security
December 31, 2019

	Girard National <u>Bank</u>	Community National <u>Bank</u>	Farmers National <u>Bank</u>
Bank balances December 31, 2019	\$ 4,749,261	\$ 200,000	\$ 204,869
Less F.D.I.C coverage	<u>250,000</u>	<u>200,000</u>	<u>204,869</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 4,499,261</u>	<u>\$ -</u>	<u>\$ -</u>
Market value of securities pledged	<u>\$ 5,056,991</u>	<u>\$ -</u>	<u>\$ -</u>

**Hospital District #1 of Crawford County, Kansas
Summary of Insurance Coverage
December 31, 2019**

Federal Insurance Company	
Policy No. 3585-70-69, expiring March 27, 2020	
Property coverage	
Buildings and contents, \$5,000 deductible	\$ 23,506,248
Blanket BPP, \$5,000 deductible	6,841,275
Business interruption	15,000,000
Computer malicious programming	1,000,000
Cincinnati Insurance Company	
Policy No. ENP 030 75 68, expiring March 27, 2020	
Employee dishonesty-blanket, \$10,000 deductible	500,000
Computer fraud, \$2,500 deductible	200,000
Funds transfer fraud, \$2,500 deductible	200,000
Forgery, \$10,000 deductible	200,000
Kansas Medical Mutual Insurance Company	
Policy No. HPL0015133, expiring March 27, 2020	
Professional hospital liability	
Professional claims	200,000/600,000
Kansas Healthcare Stabilization Fund coverage	800,000/2,400,000
Additional insureds	1,000,000/3,000,000
General liability	
Personal injury and property damage liability	1,000,000/3,000,000
Employee benefits liability, \$1,000 deductible	250,000
Cincinnati Insurance Company	
Policy No. EMH 0433716, expiring March 27, 2020	
Directors' and officers' liability and trustee and fiduciary liability, \$5,000 deductible	1,000,000
Employment practices liability, \$10,000 deductible	1,000,000
KHA Workers' Compensation Fund, Inc.	
Certificate No. 83, expiring January 1, 2020	
Workers compensation	
Per accident	500,000
Per employee disease	500,000
Policy limit employee disease	500,000
Cincinnati Insurance Company	
Policy No. EBA0115804, expiring October 28, 2020	
Automobile liability, each accident	1,000,000
Automobile uninsured motorist, each accident	1,000,000
Automobile underinsured motorist, each accident	1,000,000

**Hospital District #1 of Crawford County, Kansas
Statistical Data
(Unaudited)
Year ended December 31,**

	<u>2019</u>	<u>2018</u>
Patient days		
Acute	963	768
Swing-bed	395	412
	<hr/>	<hr/>
Total inpatient	1,358	1,180
	<hr/>	<hr/>
Geriatric psych	2,874	2,785
	<hr/>	<hr/>
Outpatient visits	18,461	18,079
	<hr/>	<hr/>
Discharges		
Acute	308	256
Geriatric psych	274	253
	<hr/>	<hr/>
Average length of stay		
Acute	3.1	3.0
Geriatric psych	10.5	11.0
	<hr/>	<hr/>
Beds		
Acute	25	25
Geriatric psych	10	10
	<hr/>	<hr/>
Occupancy percent inpatient	14.88%	12.93%
Occupancy percent geriatric psych	78.74%	76.30%