

**Independent Auditor's Report and Financial Statements
Washington County Hospital District No. 1
d/b/a Hanover Hospital
December 31, 2019 and 2018**

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Independent Auditor's Report

The Board of Trustees
Washington County Hospital District No. 1
d/b/a Hanover Hospital

We have audited the accompanying financial statements of the business-type activity of Washington County Hospital District No. 1 d/b/a Hanover Hospital (the 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Except for the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the discretely presented component unit, Hanover Hospital Foundation (the Foundation), have not been audited, and we were not engaged to audit the Foundation's financial statements as part of our audit of the Hospital's basic financial statements. The Foundation's financial activities are included in the Hospital's financial statements as the only discretely presented component unit.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of Washington County Hospital District No. 1 d/b/a Hanover Hospital. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington County Hospital District No. 1 d/b/a Hanover Hospital, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Washington County Hospital District No. 1 d/b/a Hanover Hospital basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wendling Noe Nelson: Johnson LLC

Topeka, Kansas
September 4, 2020

Financial Statements

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Net Position
December 31, 2019 and 2018**

	Assets			
	2019		2018	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Current assets				
Cash	\$ 578,626	\$ 8,083	\$ 15,425	\$ 102
Assets limited as to use	77,789		76,659	
Patient accounts receivable, net of allowance for uncollectible accounts of \$285,100 in 2019 and \$405,500 in 2018	1,326,658		1,001,849	
Property taxes receivable	341,549		328,933	
Other receivables	31,034		333	
Estimated third-party payor settlements			245,000	
Inventories	251,592		198,524	
Prepaid expenses	<u>17,782</u>		<u>11,094</u>	
Total current assets	<u>2,625,030</u>	<u>8,083</u>	<u>1,877,817</u>	<u>102</u>
Assets limited as to use				
Board-designated	26,861		6,001	
Under indenture agreement	<u>1,125,534</u>		<u>1,772,944</u>	
	1,152,395	-	1,778,945	-
Less amounts required to meet current obligations	<u>77,789</u>		<u>76,659</u>	
	<u>1,074,606</u>	-	<u>1,702,286</u>	-
Capital assets - net	<u>1,007,608</u>		<u>897,813</u>	
Total assets	<u>\$4,707,244</u>	<u>\$ 8,083</u>	<u>\$4,477,916</u>	<u>\$ 102</u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2019		2018	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Current liabilities				
Current maturities of long-term obligations	\$ 194,250	\$ -	\$ 167,402	\$ -
Accounts payable	350,444		413,215	
Accrued salaries, wages, and benefits	265,648		381,880	
Accrued vacation pay	155,439		105,135	
Accrued interest payable	24,113		38,146	
Estimated third-party payor settlements	288,000		127,811	
Total current liabilities	1,277,894		1,233,589	
Long-term obligations, less current maturities				
	2,458,942		2,553,906	
Total liabilities	3,736,836	-	3,787,495	-
Deferred inflows of resources				
Deferred property tax revenue	341,549		328,933	
Total deferred inflows of resources	341,549	-	328,933	-
Net position				
Net investment in capital assets	167,591		185,399	
Unrestricted	461,268	8,083	176,089	102
Total net position	628,859	8,083	361,488	102
Total liabilities, deferred inflows of resources, and net position	\$4,707,244	\$ 8,083	\$4,477,916	\$ 102

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31,**

	<u>2019</u>		<u>2018</u>	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Operating revenues				
Net patient service revenue	\$5,446,403	\$ -	\$4,659,399	\$ -
Other	<u>145,461</u>		<u>38,394</u>	
Total operating revenues	<u>5,591,864</u>	<u>-</u>	<u>4,697,793</u>	<u>-</u>
Operating expenses				
Salaries and wages	2,653,386		2,527,456	
Employee benefits	446,184		469,213	
Supplies and other	2,433,368	1,717	1,917,552	61,345
Depreciation and amortization	<u>158,486</u>		<u>101,369</u>	
Total operating expenses	<u>5,691,424</u>	<u>1,717</u>	<u>5,015,590</u>	<u>61,345</u>
Operating loss	<u>(99,560)</u>	<u>(1,717)</u>	<u>(317,797)</u>	<u>(61,345)</u>
Nonoperating revenues (expenses)				
Property taxes	335,447		94,726	
Noncapital contributions and grants	14,209	9,698	73,328	
Investment income	13,491		4,052	12
Interest expense	(144,960)		(111,116)	
Other	<u>6,192</u>		<u>10,938</u>	
Nonoperating revenues (expenses)	<u>224,379</u>	<u>9,698</u>	<u>71,928</u>	<u>12</u>
Excess of revenues over (under) expenses, before contributions and grants for capital purposes	124,819	7,981	(245,869)	(61,333)
Capital grants and contributions	<u>142,552</u>			
Change in net position	267,371	7,981	(245,869)	(61,333)
Net position at beginning of year	<u>361,488</u>	<u>102</u>	<u>607,357</u>	<u>61,435</u>
Net position at end of year	<u>\$ 628,859</u>	<u>\$ 8,083</u>	<u>\$ 361,488</u>	<u>\$ 102</u>

The accompanying notes are an integral part of these statements.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Cash Flows
Year ended December 31,**

	2019		2018	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$5,526,783	\$ -	\$4,005,211	\$ -
Payments to or on behalf of employees	(3,165,498)		(2,827,639)	
Payments to suppliers	(2,570,200)		(1,707,996)	
Other receipts and payments	<u>114,760</u>	<u>(1,717)</u>	<u>38,394</u>	<u>(61,345)</u>
Net cash used by operating activities	<u>(94,155)</u>	<u>(1,717)</u>	<u>(492,030)</u>	<u>(61,345)</u>
Cash flows from noncapital financing activities				
Property taxes	335,447		94,726	
Noncapital contributions and grants	14,209	9,698	73,328	
Noncapital contributions and grants			(55,000)	
Interest paid	(14,165)		(876)	
Other nonoperating receipts	<u>6,192</u>	<u>-</u>	<u>10,938</u>	<u>12</u>
Net cash provided by noncapital financing activities	<u>341,683</u>	<u>9,698</u>	<u>123,116</u>	<u>12</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(253,976)		(262,385)	
Grants and contributions for capital	142,552			
Issuance of long-term debt			2,319,919	
Payments on long-term debt	(90,000)			
Issuance of note payable	130,000			
Payments on note payable	(27,943)			
Payment of bond issuance costs			(70,500)	
Payments on capital lease obligations	(72,178)		(13,238)	
Interest paid	<u>(152,823)</u>		<u>(4,259)</u>	
Net cash provided (used) by capital and related financing activities	<u>(324,368)</u>	<u>-</u>	<u>1,969,537</u>	<u>-</u>
Cash flows from investing activities				
Investment income	<u>13,491</u>		<u>4,052</u>	
Net cash provided by investing activities	<u>13,491</u>	<u>-</u>	<u>4,052</u>	<u>-</u>
Net change in cash	(63,349)	7,981	1,604,675	(61,333)
Cash at beginning of year	<u>1,794,370</u>	<u>102</u>	<u>189,695</u>	<u>61,435</u>
Cash at end of year	<u>\$1,731,021</u>	<u>\$ 8,083</u>	<u>\$1,794,370</u>	<u>\$ 102</u>

The accompanying notes are an integral part of these statements.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Cash Flows - Continued
Year ended December 31,**

	2019		2018	
	<u>Hospital</u>	(Unaudited) Component <u>unit</u>	<u>Hospital</u>	(Unaudited) Component <u>unit</u>
Reconciliation of cash				
Cash	\$ 578,626	\$ 8,083	\$ 15,425	\$ 102
Cash included in assets limited as to use Board-designated	26,861		6,001	
Under indenture agreement	<u>1,125,534</u>	<u> </u>	<u>1,772,944</u>	<u> </u>
Total cash	<u>\$1,731,021</u>	<u>\$ 8,083</u>	<u>\$1,794,370</u>	<u>\$ 102</u>
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	\$ (99,560)	\$ (1,717)	\$ (317,797)	\$ (61,345)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation and amortization	158,486		101,369	
Provision for bad debts	161,442		208,551	
Changes in				
Patient accounts receivable	(486,251)		(622,737)	
Estimated third-party payor settlements	405,189		(240,002)	
Inventories, prepaid expenses, and other receivables	(90,457)		(13,455)	
Accounts payable	(77,076)		223,011	
Accrued salaries and wages	(116,232)		176,263	
Accrued vacation pay	<u>50,304</u>	<u> </u>	<u>(7,233)</u>	<u> </u>
Net cash used by operating activities	<u>\$ (94,155)</u>	<u>\$ (1,717)</u>	<u>\$ (492,030)</u>	<u>\$ (61,345)</u>
Supplemental cash flows information				
Capital lease obligations incurred	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 362,502</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements
December 31, 2019 and 2018

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

Washington County Hospital District No. 1 d/b/a Hanover Hospital (the Hospital), is a political subdivision of the state of Kansas and is governed by a Board of Trustees. The Hospital provides acute inpatient, outpatient, and swing-bed services.

The component unit discussed in Note A1 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Component unit

The financial statements include the unaudited financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Hanover Hospital Foundation (the Foundation), is a not-for-profit corporation formed in March of 1994 to develop support for the delivery of hospital services, health care, diagnosis and treatment, health related education, and to support efforts by the Hospital, the City of Hanover, or Washington County to recruit physicians to serve the community. The Foundation is administered by a Board of Directors. The Hospital does not appoint members to the Board of Directors.

2. Basis of accounting

The Hospital and its component unit use enterprise fund accounting. 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. Cash

The Hospital and its component unit consider all cash and invested cash to be cash for the statements of cash flows.

5. Property taxes

The Hospital receives financial support from property taxes. Property taxes are levied in November of each year and are received by the Hospital in the following year. Property tax revenue is recognized in full the year following the year that the taxes were levied, which is the year in which use is first permitted.

6. Patient accounts receivable

The Hospital provides for patient accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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

7. Inventories

Inventories are stated at the lower of cost or market as determined on the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for the purpose of additional capital assets for ambulance services, over which the Board of Trustees retains control and may, at its discretion, subsequently use for other purposes and assets held by the Hospital under bond indenture agreements. Amounts that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets are stated at cost. Depreciation and amortization of capital assets is 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.

10. Deferred inflows of resources

Deferred inflows of resources represent an acquisition of net position applicable to a future period and so will not be recognized as a revenue or gain until then.

11. Net position

Net position of the Hospital and its component unit is classified in two components. "Net investment in capital assets" 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. "Unrestricted net position" is the remaining net position that does not meet the definition of "net investment in capital assets."

12. Grants and contributions

From time to time, the Hospital receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including any 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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

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

13. Operating revenues and expenses

The 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, which is the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. 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.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

16. Subsequent events

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

Note B - Net Patient Service Revenue

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 payor settlements consist of the estimated 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 - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at tentative rates with 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, 2018.

Medicaid - Hospital 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. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information from preceding calendar years.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note B - Net Patient Service Revenue - Continued

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

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

A summary of gross and net patient service revenue follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$8,191,807	\$6,780,897
Contractual adjustments	(2,583,962)	(1,912,947)
Provision for/recovery of bad debts	<u>(161,442)</u>	<u>(208,551)</u>
Net patient service revenue	<u>\$5,446,403</u>	<u>\$4,659,399</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 64 percent and 7 percent, and 65 percent and 7 percent of the Hospital's net patient service revenue during 2019 and 2018, respectively. 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.

Note C - Allowance for Uncollectible Accounts

Prior to March 1, 2018, the Hospital accrued interest finance charges on patient accounts receivable sent to collections. The annual interest rate of 10 percent was applied on a monthly, prorated basis. Interest amounts accrued prior to March 1, 2018, are included in patient accounts receivable, but are taken into consideration in the calculation of the allowance for uncollectible accounts. The Hospital's allowance for doubtful accounts was 93 percent and 106 percent of self-pay accounts receivable at December 31, 2019 and 2018, respectively. The Hospital's net bad debt write-offs were \$280,949 and \$215,844 for the years ended December 31, 2019 and 2018, respectively.

Note D - Assets Limited as to Use

The composition of the Hospital's assets limited as to use is as follows:

	<u>2019</u>	<u>2018</u>
Board-designated		
Cash	<u>\$ 26,861</u>	<u>\$ 6,001</u>
Under indenture agreements		
Cash	<u>\$1,125,534</u>	<u>\$1,772,944</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note D - Assets Limited as to Use - Continued

Assets limited as to use under indenture agreement are related to the general obligation bond and temporary note issuance (Note G) and consist of the following:

	<u>2019</u>	<u>2018</u>
Project fund	<u>\$1,125,534</u>	<u>\$1,772,944</u>

The project fund is to be used to pay authorized costs of the project and any costs of issuance not paid by the Hospital. Any funds remaining in the project fund after completion of the project, as determined by the Board of Trustees, shall be transferred immediately to the principal and interest fund. The principal and interest fund is to be used to pay interest and principal payments on the bonds. The Hospital has not established a principal and interest fund as of December 31, 2019. The Hospital expects to pay debt service on the bonds from amounts deposited into the principal and interest fund derived from tax levies and other funds lawfully available to the Hospital and investment earnings from the temporary investment of such funds.

Note E - 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. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the Hospital.

At December 31, 2019, the carrying amount of the Hospital's bank deposits was \$1,731,001 and the bank balances were \$1,865,937. Of the bank balances, \$504,597 was covered by federal depository insurance while \$326,537 was collateralized with securities held by pledging financial institutions in the Hospital's name and \$1,034,803 was collateralized by an irrevocable letter of credit.

The Hospital's bank deposits are included in the Hospital's financial statements under the following categories:

Cash	\$ 578,606
Assets limited as to use	
Board-designated assets	26,861
By agreement	<u>1,125,534</u>
Total bank deposits	<u>\$1,731,001</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Long-Term Obligations

Long-term obligations of the Hospital are summarized as follows:

	<u>2019</u>	<u>2018</u>
Washington County Hospital District No. 1 General Obligation Bonds, Series 2018A, issued August 20, 2018, in the original amount of \$1,315,000, 4.00% to 4.25% bonds due serially beginning October 1, 2017 through October 1, 2033.	\$1,135,000	\$1,135,000
Washington County Hospital District No. 1 Taxable General Obligation Bonds, Series 2018B, issued August 20, 2018, in the original amount of \$755,000, 5.00% bonds due serially beginning October 1, 2022 through October 1, 2027.	755,000	755,000
Washington County Hospital District No. 1 Taxable General Obligation Temporary Notes, Series 2018, issued August 20, 2018, in the original amount of \$310,000, 5.00% bonds due serially beginning October 1, 2019 through October 1, 2021.	220,000	310,000
Note payable to bank issued in May 2019, in the original amount of \$130,000 to be paid in monthly installments of \$1,000 in months June through April and \$19,005 in May, final payment due May 2023, interest rate of 4.9%, collateralized by an ambulance and ambulance equipment.	102,057	
Capital lease obligations, imputed interest rates ranging from 6.13% to 6.95%, collateralized by leased equipment with an amortized cost of \$222,923 at December 31, 2019.	<u>331,876</u>	<u>404,054</u>
	2,543,933	2,604,054
Net unamortized premium on 2018 bonds	109,259	117,254
Less current maturities	<u>194,250</u>	<u>167,402</u>
Long-term obligations, excluding current maturities	<u>\$2,458,942</u>	<u>\$2,553,906</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Long-Term Obligations - Continued

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

	<u>Note payable to bank</u>	<u>Capital lease obligations</u>	<u>General obligation bonds</u>	<u>General obligation temporary notes</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2018	\$ 55,000	\$ 54,790	\$ -	\$ -	\$ 109,790
Obligations incurred		362,502	1,890,000	310,000	2,562,502
Principal payments	<u>(55,000)</u>	<u>(13,238)</u>	<u> </u>	<u> </u>	<u>(68,238)</u>
Outstanding at December 31, 2018	-	404,054	1,890,000	310,000	2,604,054
Obligations incurred	130,000				130,000
Principal payments	<u>(27,943)</u>	<u>(72,178)</u>	<u> </u>	<u>(90,000)</u>	<u>(190,121)</u>
Outstanding at December 31, 2019	<u>\$ 102,057</u>	<u>\$ 331,876</u>	<u>\$1,890,000</u>	<u>\$ 220,000</u>	<u>\$2,543,933</u>

On August 20, 2018, the Hospital issued \$1,135,000 in General Obligation Bonds, Series 2018A, \$755,000 in Taxable General Obligation Bonds, Series 2018B, and \$310,000 in Taxable General Obligation Temporary Notes, Series 2018 (the 2018 bonds and temporary notes). The proceeds of the 2018 bonds and temporary notes were used to finance the acquisition, construction, renovation, and furnishing and equipping the Hospital's facility.

Scheduled annual debt service requirements under General Obligation Bonds and Temporary Notes are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 110,000	\$ 96,450	\$ 206,450
2021	110,000	90,950	200,950
2022	120,000	85,450	205,450
2023	120,000	79,450	199,450
2024	130,000	73,450	203,450
2025 - 2029	770,000	264,450	1,034,450
2030 - 2033	<u>750,000</u>	<u>81,388</u>	<u>831,388</u>
	<u>\$2,110,000</u>	<u>\$ 771,588</u>	<u>\$2,881,588</u>

Scheduled payments on the Hospital's note payable to bank is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 25,686	\$ 4,319	\$ 30,005
2021	26,973	3,032	30,005
2022	28,325	1,680	30,005
2023	<u>21,073</u>	<u>358</u>	<u>21,431</u>
	<u>\$ 102,057</u>	<u>\$ 9,389</u>	<u>\$ 111,446</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Long-Term Obligations - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 58,564	\$ 24,408	\$ 82,972
2021	73,745	9,227	82,972
2022	76,600	6,371	82,971
2023	79,642	3,329	82,971
2024	<u>43,325</u>	<u>516</u>	<u>43,841</u>
	<u>\$ 331,876</u>	<u>\$ 43,851</u>	<u>\$ 375,727</u>

Total interest costs are summarized as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	\$ 152,955	\$ 43,281
Amortization of bond premium	(7,995)	(2,665)
Payment of bond issuance costs	<u> </u>	<u>70,500</u>
Interest expense	<u>\$ 144,960</u>	<u>\$ 111,116</u>

Note H - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	71 %	50 %
Medicaid	4	13
Blue Cross	8	8
Other third-party payors	4	7
Patients	<u>13</u>	<u>22</u>
	<u>100 %</u>	<u>100 %</u>

Note I - Related Party Transactions

During 2019 and 2018, the Hospital received \$500 and \$61,345, respectively from the Foundation for the funding of ambulance equipment and general operations.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note J - 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 \$300,000 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 \$900,000. All coverage is on a claims-made basis. The above policies have been renewed through October 15, 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 risk 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. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note K - Commitments and Contingencies

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note J). No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the Hospital's incident reporting system has been made because the amount is not reasonably estimable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to December 31, 2019, will have no material effect on the financial statements of the Hospital.

At December 31, 2019, the Hospital has an unused line of credit of \$25,000 with a local bank. The line of credit can be drawn upon as needed with interest at 4.9 percent. The line of credit matures on May 31, 2020.

Note L - Subsequent Events

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 the issuance of these financial statements, the full impact to the Hospital's financial position is not known. Due to the uncertainty surrounding coronavirus and the impact on business, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) to provide financial assistance and economic stimulus. Under the terms of the CARES Act, the Hospital applied for and was granted a \$550,210 Small Business Administration (SBA) Payback Protection Program (PPP) Loan administered by a SBA approved partner. The PPP loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest. Principal and interest are deferred with deferral terms dependent on certain criteria. The Hospital is eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements. The Hospital intends to take measures to maximize the loan forgiveness. In addition, the Hospital was the beneficiary of several CARES provider relief fund grants. These CARES grant awards are conditional and are to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses or lost revenues attributable to coronavirus. The Hospital also received a special emergency funding grant from the State of Kansas.

In July 2020, the Hospital committed to the purchase of radiology equipment totaling \$238,000.

Supplementary Information

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual -
Budgetary Basis - Operation and Maintenance Fund
Year ended December 31, 2019**

	<u>Original budget</u>	<u>Final budget</u>	Actual amounts budgetary basis	Variance with final budget positive (negative)
Revenues				
Net patient service revenue	\$4,037,563	\$4,037,563	\$5,446,403	\$1,408,840
Taxes	314,153	314,153	335,447	21,294
Other	<u>174,866</u>	<u>174,866</u>	<u>179,353</u>	<u>4,487</u>
Total revenues	<u>4,526,582</u>	<u>4,526,582</u>	<u>5,961,203</u>	<u>1,434,621</u>
Expenditures				
Salaries and wages	2,431,743	2,431,743	2,653,386	(221,643)
Employee benefits	562,259	562,259	446,184	116,075
Supplies and other	1,934,673	1,934,673	1,979,534	(44,861)
Capital outlay	400,000	400,000	253,976	146,024
Principal and interest payments on debt	213,397	213,397	342,944	(129,547)
Bond payment reserve	<u>222,250</u>	<u>222,250</u>	<u> </u>	<u>222,250</u>
Total expenditures	<u>5,764,322</u>	<u>5,764,322</u>	<u>5,676,024</u>	<u>88,298</u>
Revenue over (under) expenditures	(1,237,740)	(1,237,740)	285,179	1,522,919
Fund balance, beginning of year	<u>1,237,740</u>	<u>1,237,740</u>	<u>176,089</u>	<u>(1,061,651)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,268</u>	<u>\$ 461,268</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Patient Service Revenue
Year ended December 31, 2019

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine service - acute	\$ 380,253	\$ -	\$ 380,253
Swing-bed - skilled	590,000		590,000
Swing-bed - intermediate care	989,910		989,910
Observation	4,800	596,245	601,045
Operating room	1,740	91,841	93,581
Anesthesiology	1,410	23,800	25,210
Radiology	100,793	903,014	1,003,807
Laboratory	199,106	604,830	803,936
Physical therapy	263,529	394,482	658,011
Speech therapy	10,236	2,836	13,072
Occupational therapy	70,458	30,292	100,750
Electrocardiology	2,265	25,499	27,764
Medical supplies	351,917	160,965	512,882
Pharmacy	589,583	919,534	1,509,117
Cardiac rehabilitation		13,060	13,060
Pulmonology		2,591	2,591
Emergency room	394	349,355	349,749
Ambulance		70,054	70,054
Professional fees	1,763	46,362	48,125
Rural health clinic		397,950	397,950
Other		940	940
	<u> </u>	<u> </u>	<u> </u>
Gross patient service revenue	<u>\$3,558,157</u>	<u>\$4,633,650</u>	8,191,807
Contractual adjustments			(2,583,962)
Provision for bad debts, net			<u>(161,442)</u>
Net patient service revenue			<u>\$5,446,403</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Patient Service Revenue
Year ended December 31, 2018**

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine service - acute	\$ 264,600		\$ 264,600
Swing-bed - skilled	510,153		510,153
Swing-bed - intermediate care	1,133,900		1,133,900
Observation	5,200	485,380	490,580
Nursery	800	800	1,600
Operating room	3,602	60,228	63,830
Anesthesiology	1,859	21,974	23,833
Radiology	39,949	338,023	377,972
Laboratory	174,410	458,696	633,106
Physical therapy	214,099	315,614	529,713
Speech therapy	18,233	2,203	20,436
Occupational therapy	69,102	14,976	84,078
Electrocardiology	3,473	14,962	18,435
Medical supplies	313,859	124,383	438,242
Pharmacy	581,634	734,870	1,316,504
Cardiac rehabilitation		16,405	16,405
Pulmonology	906	24,848	25,754
Emergency room	51,886	248,278	300,164
Ambulance		75,654	75,654
Professional fees	33,047	14,407	47,454
Rural Health Clinic		401,329	401,329
Other		7,155	7,155
	<u> </u>	<u> </u>	<u> </u>
Gross patient service revenue	<u>\$3,420,712</u>	<u>\$3,360,185</u>	6,780,897
Contractual adjustments			(1,912,947)
Provision for bad debts, net			<u>(208,551)</u>
Net patient service revenue			<u>\$4,659,399</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Operating Expenses by Functional Division
Year ended December 31, 2019**

<u>Department</u>	<u>Salaries and wages</u>	<u>Employee benefits, supplies, and other</u>	<u>Depreciation and amortization</u>	<u>Total</u>	<u>Percent of total operating expenses</u>
Routine service					
Adult and pediatrics	\$ 1,014,011	\$ 41,678	\$ -	\$ 1,055,689	18.55 %
Ancillary services					
Operating room	42,751	31,912		74,663	1.31
Delivery room		1,563		1,563	0.03
Radiology	30,359	222,631		252,990	4.45
Laboratory	160,551	156,891		317,442	5.58
Physical therapy		354,944		354,944	6.24
Speech therapy		2,826		2,826	0.05
Occupational therapy		57,541		57,541	1.01
Electrocardiology		3,583		3,583	0.06
CT Scan		22,143		22,143	0.39
MRI		10,005		10,005	0.18
Medical supplies	18,973	(12,490)		6,483	0.10
Pharmacy	69,314	312,548		381,862	6.71
Cardiac rehabilitation	26,265			26,265	0.46
Emergency room	263,084	221,010		484,094	8.51
Ambulance	43,903	13,259		57,162	1.00
Rural Health Clinic	291,461	14,416		305,877	5.37
	<u>946,661</u>	<u>1,412,782</u>	<u>-</u>	<u>2,359,443</u>	<u>41.45</u>
General services					
Nursing administration	181,558	438		181,996	3.20
Operation of plant	82,328	101,921		184,249	3.24
Laundry	33,706	10,604		44,310	0.78
Housekeeping	42,244	10,846		53,090	0.93
Dietary	124,795	91,944		216,739	3.81
Medical records	32,557	63,063		95,620	1.68
Administration and general	195,526	700,092		895,618	15.73
Employee benefits		446,184		446,184	7.84
Depreciation - building and fixed equipment			116,504	116,504	2.05
Depreciation - major movable equipment			41,982	41,982	0.74
	<u>692,714</u>	<u>1,425,092</u>	<u>158,486</u>	<u>2,276,292</u>	<u>40.00</u>
	<u>\$ 2,653,386</u>	<u>\$ 2,879,552</u>	<u>\$ 158,486</u>	<u>\$ 5,691,424</u>	<u>100.00 %</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Operating Expenses by Functional Division
Year ended December 31, 2018**

<u>Department</u>	<u>Salaries and wages</u>	<u>Employee benefits, supplies, and other</u>	<u>Depreciation and amortization</u>	<u>Total</u>	<u>Percent of total operating expenses</u>
Routine service					
Adult and pediatrics	\$ 956,381	\$ 81,779	\$ -	\$ 1,038,160	20.70 %
Ancillary services					
Operating room	43,172	20,845		64,017	1.28
Delivery room		1,801		1,801	0.04
Radiology	1,490	167,990		169,480	3.38
Laboratory	161,974	157,870		319,844	6.38
Physical therapy		295,601		295,601	5.89
Speech therapy		5,525		5,525	0.11
Occupational therapy		46,593		46,593	0.93
Electrocardiology	100	840		940	0.02
CT Scan		613		613	0.01
Medical supplies	22,480	21,162		43,642	0.87
Pharmacy	64,756	186,307		251,063	5.01
Cardiac rehabilitation	31,469	124		31,593	0.63
Emergency room	302,279	147,312		449,591	8.96
Ambulance	38,215	8,015		46,230	0.92
Rural Health Clinic	246,074	24,892		270,966	5.40
	<u>912,009</u>	<u>1,085,490</u>	<u>-</u>	<u>1,997,499</u>	<u>39.83</u>
General services					
Nursing administration	120,475	13		120,488	2.40
Operation of plant	78,813	108,797		187,610	3.74
Laundry	26,208	5,726		31,934	0.64
Housekeeping	45,224	9,740		54,964	1.10
Dietary	126,548	90,174		216,722	4.32
Medical records	29,785	29,818		59,603	1.19
Administration and general	232,013	506,015		738,028	14.71
Employee benefits		469,213		469,213	9.36
Depreciation - building and fixed equipment			80,199	80,199	1.60
Depreciation - major movable equipment			21,170	21,170	0.42
	<u>659,066</u>	<u>1,219,496</u>	<u>101,369</u>	<u>1,979,931</u>	<u>39.48</u>
	<u>\$ 2,527,456</u>	<u>\$ 2,386,765</u>	<u>\$ 101,369</u>	<u>\$ 5,015,590</u>	<u>100.00 %</u>