

**Independent Auditor's Report and Financial Statements
Washington County Hospital District No. 1
d/b/a Hanover Hospital
December 31, 2018 and 2017**

Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Budgetary Basis - Operation and Maintenance Fund	19
Schedule of Patient Service Revenue – December 31, 2018	20
Schedule of Patient Service Revenue – December 31, 2017	21
Schedule of Operating Expenses by Functional Division - December 31, 2018	22
Schedule of Operating Expenses by Functional Division - December 31, 2017	23

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, 2018 and 2017, 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, 2018 and 2017, 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.

Uncertainty Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note B to the financial statements, the Hospital's history of operating losses and decreases in net position and minimal days cash on hand; raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

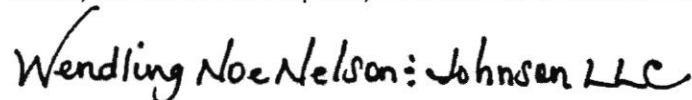
Required Supplementary Information

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.


Topeka, Kansas
August 12, 2019

Financial Statements

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Net Position
December 31, 2018 and 2017

	Assets			
	<u>2018</u>		<u>2017</u>	
	<u>Hospital</u>	<u>(Unaudited) Component unit</u>	<u>Hospital</u>	<u>(Unaudited) Component unit</u>
Current assets				
Cash	\$ 15,425	\$ 102	\$ 153,894	\$ 61,435
Assets limited as to use	76,659			
Patient accounts receivable, net of allowance for uncollectible accounts of \$405,000 in 2018 and \$399,100 in 2017	1,001,849		587,663	
Property taxes receivable	328,933		85,559	
Other receivables	333			
Estimated third-party payor settlements	245,000			
Inventories	198,524		161,974	
Prepaid expenses	11,094		34,522	
Total current assets	<u>1,877,817</u>	<u>102</u>	<u>1,023,612</u>	<u>61,435</u>
Assets limited as to use				
Board-designated	6,001		35,801	
Under indenture agreement	1,772,944			
	1,778,945	-	35,801	-
Less amounts required to meet current obligations	76,659			
	<u>1,702,286</u>	<u>-</u>	<u>35,801</u>	<u>-</u>
Capital assets - net	<u>897,813</u>		<u>374,295</u>	
Total assets	<u>\$4,477,916</u>	<u>\$ 102</u>	<u>\$1,433,708</u>	<u>\$ 61,435</u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2018		2017	
	<u>Hospital</u>	<u>(Unaudited) Component unit</u>	<u>Hospital</u>	<u>(Unaudited) Component unit</u>
Current liabilities				
Current maturities of long-term obligations	\$ 167,402	\$ -	62,374	\$ -
Accounts payable	413,215		190,204	
Accrued salaries, wages, and benefits	381,880		205,617	
Accrued vacation pay	105,135		112,368	
Accrued interest payable	38,146			
Estimated third-party payor settlements	<u>127,811</u>	<u> </u>	<u>122,813</u>	<u> </u>
Total current liabilities	1,233,589		693,376	
Long-term obligations, less current maturities	<u>2,553,906</u>	<u> </u>	<u>47,416</u>	<u> </u>
Total liabilities	<u>3,787,495</u>	<u>-</u>	<u>740,792</u>	<u>-</u>
Deferred inflows of resources				
Deferred property tax revenue	<u>328,933</u>	<u> </u>	<u>85,559</u>	<u> </u>
Total deferred inflows of resources	<u>328,933</u>	<u>-</u>	<u>85,559</u>	<u>-</u>
Net position				
Net investment in capital assets	185,399		319,504	
Unrestricted	<u>176,089</u>	<u>102</u>	<u>287,853</u>	<u>61,435</u>
Total net position	<u>361,488</u>	<u>102</u>	<u>607,357</u>	<u>61,435</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$4,477,916</u>	<u>\$ 102</u>	<u>\$1,433,708</u>	<u>\$ 61,435</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31, 2018 and 2017

	2018		2017	
	<u>Hospital</u>	(Unaudited) Component unit	<u>Hospital</u>	(Unaudited) Component unit
Operating revenues				
Net patient service revenue	\$4,659,399	\$ -	\$3,688,915	\$ -
Ambulance subsidy	<u>38,394</u>	<u> </u>	<u>35,556</u>	<u> </u>
Total operating revenues	<u>4,697,793</u>	<u>-</u>	<u>3,724,471</u>	<u>-</u>
Operating expenses				
Salaries and wages	2,527,456		2,120,778	
Employee benefits	469,213		424,126	
Supplies and other	1,917,552	61,345	1,389,408	2,460
Depreciation and amortization	<u>101,369</u>	<u> </u>	<u>65,255</u>	<u> </u>
Total operating expenses	<u>5,015,590</u>	<u>61,345</u>	<u>3,999,567</u>	<u>2,460</u>
Operating loss	<u>(317,797)</u>	<u>(61,345)</u>	<u>(275,096)</u>	<u>(2,460)</u>
Nonoperating revenues (expenses)				
Property taxes	94,726		91,676	
Noncapital contributions and grants	73,328		16,651	38,160
Investment income	4,052	12	879	80
Interest expense	(111,116)		(4,596)	
Other	<u>10,938</u>	<u> </u>	<u>20,689</u>	<u> </u>
Nonoperating revenues (expenses)	<u>71,928</u>	<u>12</u>	<u>125,299</u>	<u>38,240</u>
Change in net position	<u>(245,869)</u>	<u>(61,333)</u>	<u>(149,797)</u>	<u>35,780</u>
Net position at beginning of year	<u>607,357</u>	<u>61,435</u>	<u>757,154</u>	<u>25,655</u>
Net position at end of year	<u>\$ 361,488</u>	<u>\$ 102</u>	<u>\$ 607,357</u>	<u>\$ 61,435</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, 2018 and 2017

	2018		2017	
	<u>Hospital</u>	<u>(Unaudited) Component unit</u>	<u>Hospital</u>	<u>(Unaudited) Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$4,005,211	\$ -	\$3,953,922	\$ -
Payments to or on behalf of employees	(2,827,639)		(2,524,496)	
Payments to suppliers	(1,707,996)		(1,474,141)	
Other receipts and payments	<u>38,394</u>	<u>(61,345)</u>	<u>35,556</u>	<u>(2,460)</u>
Net cash used by operating activities	<u>(492,030)</u>	<u>(61,345)</u>	<u>(9,159)</u>	<u>(2,460)</u>
Cash flows from noncapital financing activities				
Property taxes	94,726		91,676	
Noncapital contributions and grants	73,328		16,651	38,160
Noncapital contributions and grants	(55,000)		(45,000)	
Interest paid	(876)		(1,156)	
Other nonoperating receipts	<u>10,938</u>	<u>12</u>	<u>20,689</u>	<u>80</u>
Net cash provided by noncapital financing activities	<u>123,116</u>	<u>12</u>	<u>82,860</u>	<u>38,240</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(262,385)		(20,431)	
Issuance of long-term debt	2,319,919			
Payment of bond issuance costs	(70,500)			
Payments on capital lease obligations	(13,238)		(5,766)	
Interest paid	<u>(4,259)</u>		<u>(3,440)</u>	
Net cash provided (used) by capital and related financing activities	<u>1,969,537</u>	<u>-</u>	<u>(29,637)</u>	<u>-</u>
Cash flows from investing activities				
Investment income	<u>4,052</u>		<u>879</u>	
Net cash provided by investing activities	<u>4,052</u>	<u>-</u>	<u>879</u>	<u>-</u>
Net change in cash	1,604,675	(61,333)	44,943	35,780
Cash at beginning of year	<u>189,695</u>	<u>61,435</u>	<u>144,752</u>	<u>25,655</u>
Cash at end of year	<u>\$1,794,370</u>	<u>\$ 102</u>	<u>\$ 189,695</u>	<u>\$ 61,435</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, 2018 and 2017

	2018		2017	
	Hospital	(Unaudited) Component unit	Hospital	(Unaudited) Component unit
Reconciliation of cash				
Cash	\$ 15,425	\$ 102	\$ 153,894	\$ 61,435
Cash included in assets limited as to use Board-designated	6,001		35,801	
Under indenture agreement	<u>1,772,944</u>			
Total cash	<u><u>\$1,794,370</u></u>	<u><u>\$ 102</u></u>	<u><u>\$ 189,695</u></u>	<u><u>\$ 61,435</u></u>
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	\$ (317,797)	\$ (61,345)	\$ (275,096)	\$ (2,460)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation and amortization	101,369		65,255	
Provision for bad debts, net	208,551		(17,374)	
Changes in				
Patient accounts receivable	(622,737)		19,341	
Estimated third-party payor settlements	(240,002)		263,040	
Inventories, prepaid expenses, and other receivables	(13,455)		(46,256)	
Accounts payable	223,011		(38,477)	
Accrued salaries and wages	176,263		1,577	
Accrued vacation pay	<u>(7,233)</u>		<u>18,831</u>	
Net cash used by operating activities	<u><u>\$ (492,030)</u></u>	<u><u>\$ (61,345)</u></u>	<u><u>\$ (9,159)</u></u>	<u><u>\$ (2,460)</u></u>
Supplemental cash flows information				
Capital lease obligations incurred	<u><u>\$ 362,502</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 60,556</u></u>	<u><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, 2018 and 2017

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.

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017**

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

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.

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

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

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

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.

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 - Realization of Assets

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Hospital as a going concern. The Hospital incurred operating losses of \$317,797 and \$275,096 during the years ended December 31, 2018 and 2017, respectively. Total net position decreased by \$245,869 and \$149,797 during 2018 and 2017, respectively. The Hospital's liquidity position remains challenging with days cash on hand at 2 days at December 31, 2018.

In view of the matter described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Hospital which, in turn, is dependent upon the Hospital's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Hospital be unable to continue in existence.

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note B - Realization of Assets - Continued

The Hospital administration recognizes the issues with accumulating ongoing decreases in net position. Immediate plans include:

- Optimizing new computer system to decrease time in revenue cycle. Hospital will set weekly billing goals to catch up on billing backlog caused by computer system conversion.
- Fundraising by the Foundation to be used for capital needs and operations of the Hospital.
- Adding additional provider in 2020, which will increase patient volumes.

Management believes that the actions taken will enable the Hospital to generate sufficient cash flows to sustain operations.

Note C - 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, 2016.

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.

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.

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note C - Net Patient Service Revenue

A summary of gross and net patient service revenue follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$6,780,897	\$4,986,065
Contractual adjustments	(1,912,947)	(1,314,524)
Provision for/recovery of bad debts	<u>(208,551)</u>	<u>17,374</u>
Net patient service revenue	<u>\$4,659,399</u>	<u>\$3,688,915</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 65 percent and 7 percent, and 59 percent and 4 percent of the Hospital's net patient service revenue during 2018 and 2017, 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 D - 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 106 percent and 96 percent of self-pay accounts receivable at June 30, 2018 and June 30, 2017, respectively. The Hospital's net bad debt write-offs were \$215,844 and \$119,355 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note E - Assets Limited as to Use

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

	<u>2018</u>	<u>2017</u>
Board-designated		
Cash	<u>\$ 6,001</u>	<u>\$ 35,801</u>
Under indenture agreements		
Cash	<u>\$1,772,944</u>	<u>\$ -</u>

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

	<u>2018</u>	<u>2017</u>
Project fund	<u>\$1,772,944</u>	<u>\$ -</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017**

Note E - Assets Limited as to Use - Continued

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, 2018. 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 F - 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, 2018, the carrying amount of the Hospital's bank deposits was \$1,794,350 and the bank balances were \$1,866,627. Of the bank balances, \$253,641 was covered by federal depository insurance while \$322,412 was collateralized with securities held by pledging financial institutions in the Hospital's name and \$1,290,574 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	\$ 15,405
Assets limited as to use	
Board-designated assets	6,001
By agreement	<u>1,772,944</u>
Total bank deposits	<u>\$1,794,350</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note G - Capital Assets

Capital asset additions, retirements, and balances are as follows:

	2018			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 14,229	\$ -	\$ -	\$ 14,229
Land improvements	33,945			33,945
Buildings	1,176,676			1,176,676
Fixed equipment	622,934	632,954		1,255,888
Major movable equipment	1,187,279			1,187,279
Totals at historical cost	3,035,063	632,954	-	3,668,017
Less accumulated depreciation				
Land improvements	31,034	671		31,705
Buildings	1,030,195	14,259		1,044,454
Fixed equipment	504,242	65,269		569,511
Major movable equipment	1,103,364	21,170		1,124,534
	2,668,835	101,369	-	2,770,204
	366,228	531,585	-	897,813
Construction in progress	8,067	(8,067)		
Capital assets, net	<u>\$ 374,295</u>	<u>\$ 523,518</u>	<u>\$ -</u>	<u>\$ 897,813</u>

	2017			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 14,229	\$ -	\$ -	\$ 14,229
Land improvements	33,945			33,945
Buildings	1,176,676			1,176,676
Fixed equipment	608,789	14,145		622,934
Major movable equipment	1,165,073	61,657	39,451	1,187,279
Totals at historical cost	2,998,712	75,802	39,451	3,035,063
Less accumulated depreciation				
Land improvements	30,326	708		31,034
Buildings	1,011,919	18,276		1,030,195
Fixed equipment	481,742	22,500		504,242
Major movable equipment	1,119,044	23,771	39,451	1,103,364
	2,643,031	65,255	39,451	2,668,835
	355,681	10,547	-	366,228
Construction in progress	2,882	5,185		8,067
Capital assets, net	<u>\$ 358,563</u>	<u>\$ 15,732</u>	<u>\$ -</u>	<u>\$ 374,295</u>

**Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017**

Note H - Long-Term Obligations

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

	<u>2018</u>	<u>2017</u>
Noninterest bearing loan from an individual in the original amount of \$100,000; due in equal monthly payments of \$5,000, ending November 2018.	\$ -	\$ 55,000
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 \$1,315,000, 4.00% to 4.25% bonds due serially beginning October 1, 2017 through October 1, 2033.	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	
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.	310,000	
Capital lease obligations, imputed interest rates ranging from 6.13% to 6.95%, collateralized by leased equipment with an amortized cost of \$369,411 at December 31, 2018.	<u>404,054</u>	<u>54,790</u>
	2,604,054	109,790
Net unamortized premium on 2018 bonds	117,254	
Less current maturities	<u>167,402</u>	<u>62,374</u>
Long-term obligations, excluding current maturities	<u>\$2,553,906</u>	<u>\$ 47,416</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note H - 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, 2017	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Obligations incurred		60,556			60,556
Principal payments	<u>(45,000)</u>	<u>(5,766)</u>			<u>(50,766)</u>
Outstanding at December 31, 2017	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>(68,238)</u>
Outstanding at December 31, 2018	<u>\$ -</u>	<u>\$ 404,054</u>	<u>\$1,890,000</u>	<u>\$ 310,000</u>	<u>\$2,604,054</u>

On July 19, 2016, the Hospital signed a promissory note to borrow \$100,000 from a local bank. The note was at an interest rate of 4.9 percent with principal and interest due upon maturity on November 1, 2016. Upon maturity, the note principal and interest was paid off by the Chief Medical Officer of the Hospital. The Hospital and the Chief Medical Officer entered into a verbal agreement for the repayment of the \$100,000 loan in 20 equal installments of \$5,000 each, with no interest beginning in April 2017.

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>
2019	\$ 90,000	\$ 112,447	\$ 202,447
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 - 2028	730,000	298,800	1,028,800
2029 - 2033	<u>920,000</u>	<u>120,488</u>	<u>1,040,488</u>
	<u>\$2,200,000</u>	<u>\$ 884,035</u>	<u>\$3,084,035</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note H - Long-Term Obligations - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 77,402	\$ 29,577	\$ 106,979
2020	64,442	18,529	82,971
2021	68,580	14,391	82,971
2022	72,983	9,988	82,971
2023	77,671	5,300	82,971
2024	<u>42,976</u>	<u>861</u>	<u>43,837</u>
	<u>\$ 404,054</u>	<u>\$ 78,646</u>	<u>\$ 482,700</u>

Total interest costs are summarized as follows:

	<u>2018</u>	<u>2017</u>
Total interest incurred	\$ 43,281	\$ 4,596
Amortization of bond premium	(2,665)	
Payment of bond issuance costs	<u>70,500</u>	<u> </u>
Interest expense	<u>\$ 111,116</u>	<u>\$ 4,596</u>

Note I – 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>2018</u>	<u>2017</u>
Medicare	50 %	43 %
Medicaid	13	3
Blue Cross	8	5
Other third-party payors	7	15
Patients	<u>22</u>	<u>34</u>
	<u>100 %</u>	<u>100 %</u>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Notes to Financial Statements - Continued
December 31, 2018 and 2017

Note J – Related Party Transactions

During 2018 and 2017, the Hospital received \$61,345 and \$2,460 from the Foundation for the funding of general operations, respectively.

In 2017, the Hospital purchased pharmaceuticals from a local pharmacy that was owned by a member of the Hospital's Board of Trustees. In addition, the board member provided pharmacy services to the Hospital. Approximately \$231,000 was recognized as expense related to these goods and services in 2017. In 2018, this business agreement was discontinued and there were no pharmacy services provided to the Hospital by the board member.

Note K - 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, 2019. 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 L – Subsequent Events

On March 21, 2019, the Hospital entered into a financing agreement with a local bank in the original amount of \$38,900 to assist in the funding of the purchase of an ambulance and ambulance equipment.

In May 2019, the Hospital entered into a loan agreement with a local bank for \$130,000 to refinance the loan entered into March 21, 2019, and for operations. The loan is payable in annual principal and interest installments of \$30,005 with final maturity on May 31, 2024. The interest rate on the loan is 4.9 percent. In addition, in May 2019, the Hospital entered into a \$25,000 line of credit with the local bank. The line of credit matures May 31, 2020.

Note M - Commitments and Contingencies

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note K). 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, 2018, will have no material effect on the financial statements of the Hospital.

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, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual amounts budgetary basis</u>	<u>Variance with final budget positive (negative)</u>
Revenues				
Net patient service revenue	\$3,827,112	\$3,827,112	\$4,659,399	\$ 832,287
Taxes	90,659	90,659	94,726	4,067
Other	<u>73,416</u>	<u>73,416</u>	<u>126,712</u>	<u>53,296</u>
Total revenues	<u>3,991,187</u>	<u>3,991,187</u>	<u>4,880,837</u>	<u>889,650</u>
Expenditures				
Salaries and wages	2,272,523	2,272,523	2,527,456	(254,933)
Employee benefits	456,249	456,249	469,213	(12,964)
Supplies and other	1,514,033	1,514,033	1,917,552	(403,519)
Capital outlay	<u>75,000</u>	<u>75,000</u>	<u>78,380</u>	<u>(3,380)</u>
Total expenditures	<u>4,317,805</u>	<u>4,317,805</u>	<u>4,992,601</u>	<u>(674,796)</u>
Revenue over (under) expenditures	(326,618)	(326,618)	(111,764)	214,854
Fund balance, beginning of year	<u>446,067</u>	<u>446,067</u>	<u>287,853</u>	<u>(158,214)</u>
Fund balance, end of year	<u>\$ 119,449</u>	<u>\$ 119,449</u>	<u>\$ 176,089</u>	<u>\$ 56,640</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>\$3,420,712</u>	<u>\$3,360,185</u>	6,780,897
Gross patient service revenue			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 Patient Service Revenue
Year ended December 31, 2017

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Routine service - acute	\$ 165,350	\$ -	\$ 165,350
Swing-bed - skilled	309,147		309,147
Swing-bed - intermediate care	969,510		969,510
Observation	1,470	243,295	244,765
Nursery			
Operating room	4,052	95,862	99,914
Anesthesiology	300	13,117	13,417
Radiology	20,243	105,529	125,772
Laboratory	165,094	156,381	321,475
Physical therapy	166,317	262,983	429,300
Speech therapy	4,592	1,251	5,843
Occupational therapy	62,210	15,309	77,519
Electrocardiology	1,430	5,070	6,500
Medical supplies	366,813	249,957	616,770
Pharmacy	532,646	785,761	1,318,407
Cardiac rehabilitation		47,775	47,775
Pulmonology	604	26,293	26,897
Emergency room	1,850	114,020	115,870
Ambulance		91,744	91,744
Professional fees	<u> </u>	<u>90</u>	<u>90</u>
Gross patient service revenue	<u>\$2,771,628</u>	<u>\$2,214,437</u>	4,986,065
Contractual adjustments			(1,314,524)
Provision for bad debts, net			<u>17,374</u>
Net patient service revenue			<u>\$3,688,915</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 %
Nursery					
	<u>956,381</u>	<u>81,779</u>	<u>-</u>	<u>1,038,160</u>	<u>20.70</u>
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	0.86
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>39.82</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>

Washington County Hospital District No. 1
d/b/a Hanover Hospital
Schedule of Operating Expenses by Functional Division
Year ended December 31, 2017

<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	\$ 938,999	\$ 34,884	\$ -	\$ 973,883	24.35 %
Nursery	383			383	0.01
	<u>939,382</u>	<u>34,884</u>	<u>-</u>	<u>974,266</u>	<u>24.36</u>
Ancillary services					
Operating room	45,483	11,664		57,147	1.43
Delivery room	465			465	0.01
Radiology	2,973	33,834		36,807	0.92
Laboratory	99,010	129,671		228,681	5.72
Physical therapy		281,456		281,456	7.04
Speech therapy		4,481		4,481	0.11
Occupational therapy		49,128		49,128	1.23
Electrocardiology	313			313	0.01
Medical supplies	23,079	52,399		75,478	1.89
Pharmacy	36,453	228,108		264,561	6.61
Cardiac rehabilitation	16,485			16,485	0.41
Emergency room	322,171	106,863		429,034	10.73
Ambulance	40,503	12,966		53,469	1.34
	<u>586,935</u>	<u>910,570</u>	<u>-</u>	<u>1,497,505</u>	<u>37.45</u>
General services					
Nursing administration	110,187			110,187	2.75
Operation of plant	73,591	93,579		167,170	4.18
Laundry	25,586	5,239		30,825	0.77
Housekeeping	41,036	9,157		50,193	1.25
Dietary	118,681	88,398		207,079	5.18
Medical records	17,732	197		17,929	0.45
Administration and general	207,648	247,384		455,032	11.38
Employee benefits		424,126		424,126	10.60
Depreciation - building and fixed equipment			41,484	41,484	1.04
Depreciation - major movable equipment			23,771	23,771	0.59
	<u>594,461</u>	<u>868,080</u>	<u>65,255</u>	<u>1,527,796</u>	<u>38.19</u>
	<u>\$ 2,120,778</u>	<u>\$ 1,813,534</u>	<u>\$ 65,255</u>	<u>\$ 3,999,567</u>	<u>100.00 %</u>