

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018



Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Allen County Hospital
d/b/a Allen County Regional Hospital
Iola, Kansas

We have audited the accompanying financial statements of Allen County Hospital d/b/a/ Allen County Regional Hospital (Hospital), a component unit of Allen County, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allen County Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Kansas City, Missouri
May 28, 2020

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Allen County Hospital d/b/a Allen County Regional Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital saw a sharp drop in inpatient volumes for both acute patient days and swing bed patient days by approximately 19 percent and 42 percent, respectively. There was a significant shift from inpatient acute patient days to outpatient observation. The Hospital did see an 18 percent increase in total surgical cases due to the addition of a full-time surgeon. In addition, there was a significant increase in income generated from the 340B retail pharmacy program.
- The Hospital reported operating revenues of \$23,212,385 in 2019, \$22,192,481 in 2018 and \$21,961,811 in 2017.
- The Hospital reported an operating income of \$2,248,378 in 2019, \$1,569,055 in 2018 and \$59,843 in 2017.
- The Hospital reported an increase in net position of \$1,236,241 in 2019, increase in net position of \$59,991 in 2018 and a decrease in net position of \$1,720,181 in 2017.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheets. The Hospital's net position has shown an increase in 2019 and increase in 2018, as illustrated in Table 1 below.

Table 1: Assets, Liabilities and Net Position

	2019	2018	2017
Assets			
Patient accounts receivable, net	\$ 3,140,647	\$ 2,904,619	\$ 2,844,976
Other current assets	1,846,130	1,270,998	1,787,384
Capital assets, net	642,219	743,911	930,727
Other noncurrent assets	620	20,725	8,460
	<u>5,629,616</u>	<u>4,940,253</u>	<u>5,571,547</u>
Total assets	<u>\$ 5,629,616</u>	<u>\$ 4,940,253</u>	<u>\$ 5,571,547</u>
Liabilities			
Long-term debt	\$ 12,466	\$ 29,046	\$ 132,325
Other current and noncurrent liabilities	1,989,451	2,519,749	3,107,755
	<u>2,001,917</u>	<u>2,548,795</u>	<u>3,240,080</u>
Total liabilities	<u>2,001,917</u>	<u>2,548,795</u>	<u>3,240,080</u>
Net Position			
Net investment in capital assets	461,410	489,407	507,877
Restricted expendable	620	20,725	8,460
Unrestricted	3,165,669	1,881,326	1,815,130
	<u>3,627,699</u>	<u>2,391,458</u>	<u>2,331,467</u>
Total net position	<u>3,627,699</u>	<u>2,391,458</u>	<u>2,331,467</u>
Total liabilities and net position	<u>\$ 5,629,616</u>	<u>\$ 4,940,253</u>	<u>\$ 5,571,547</u>

Net patient accounts receivable increased by \$236,028 or 8 percent at December 31, 2019 compared to December 31, 2018 and increased by \$59,643 or 2 percent at December 31, 2018 compared to December 31, 2017.

Other current assets increased by \$575,132 or 45 percent at December 31, 2019 compared to December 31, 2018 and decreased by \$516,386 or 29 percent at December 31, 2018 compared to 2017.

Other noncurrent assets decreased by \$20,105 or 97 percent at December 31, 2019 compared to December 31, 2018 and increased by \$12,265 or 145 percent at December 31, 2018 compared to 2017.

Long-term debt decreased by \$16,580 or 57 percent at December 31, 2019 compared to December 31, 2018 and by \$103,279 or 78 percent at December 31, 2018 compared to 2017, due to the scheduled debt principal payments.

Operating Results and Changes in the Hospital's Net Position

As shown in Table 2, the Hospital had an increase in net position for 2019 of \$1,236,241 which is an improvement of \$1,176,250 from 2018. The improvement over prior year's performance is a result of several factors that are discussed below. In 2018, the Hospital had an increase in net position of \$59,991, which is a improvement of \$1,780,172 from 2017.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 21,886,940	\$ 20,979,563	\$ 21,302,528
Other operating revenues	1,325,445	1,212,918	659,283
Total operating revenues	<u>23,212,385</u>	<u>22,192,481</u>	<u>21,961,811</u>
Operating Expenses			
Salaries and wages and employee benefits	9,807,100	9,201,365	10,077,448
Purchased services and professional fees	2,866,364	3,173,340	3,168,717
Depreciation and amortization	154,702	274,990	659,594
Other operating expenses	8,135,841	7,973,731	7,996,209
Total operating expenses	<u>20,964,007</u>	<u>20,623,426</u>	<u>21,901,968</u>
Operating Income	<u>2,248,378</u>	<u>1,569,055</u>	<u>59,843</u>
Nonoperating Revenues (Expenses)			
Investment income	3,160	7,457	8,403
Interest expense	(713)	(2,626)	(5,779)
Gain (loss) on sale of capital assets	7	-	(2,469)
Other	-	-	5,000
Contributions to Allen County, Kansas	(1,014,736)	(1,527,585)	(1,828,814)
Noncapital grants and gifts	-	747	-
Total nonoperating expenses	<u>(1,012,282)</u>	<u>(1,522,007)</u>	<u>(1,823,659)</u>
Capital Gifts and Grants			
Gifts to purchase capital assets	145	12,943	43,635
Increase (Decrease) in Net Position	<u>\$ 1,236,241</u>	<u>\$ 59,991</u>	<u>\$ (1,720,181)</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The operating income for 2019 of \$2,248,378 was an increase of \$679,323 from the 2018 operating income of \$1,569,055. Prior to cost reporting adjustments there was a slight decrease in operating income due to increases in salaries and contract labor. The Hospital saw a significant savings in bond fund disbursements due to the reduction of excess funding as the Hospital prepares for the transition to Saint Luke's Health System.

The operating income for 2018 of \$1,569,055 was an increase of \$1,509,212 from the 2017 operating income of \$59,843. The primary component of the increase in the operating income is a decrease in salaries and wages and employee benefits. The primary reasons for this change is due to the Hospital changing to a full coverage insurance plan with Blue Cross Blue Shield effective July 1, 2018.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, gain or loss on sale of capital assets, contributions to Allen County, Kansas and noncapital gifts and grants. The Hospital recognized interest expense of \$713, \$2,626, and \$5,779 during 2019, 2018 and 2017, respectively, for the payment of a note payable and capital leases. The Hospital made contributions to Allen County, Kansas of \$1,014,736, \$1,527,585 and \$1,828,814 during 2019, 2018 and 2017, respectively, for the payment of debt service requirements.

Capital Grants and Gifts

The Hospital received capital grants and gifts of \$145, \$12,943 and \$43,635 during 2019, 2018 and 2017, respectively, which primarily related to contributions from local foundations for constructing and equipping the Hospital facility.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Hospital had \$642,219 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2019, the Hospital purchased new equipment and construction services costing \$78,292. Of this amount, \$7,985 is included in accounts payable at December 31, 2019.

At the end of 2018, the Hospital had \$743,911 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2018, the Hospital purchased new equipment and construction services costing \$88,174. Of this amount, \$27,221 was acquired through capital lease obligations and \$35,100 is included in accounts payable at December 31, 2018.

At the end of 2017, the Hospital had \$930,727 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2017, the Hospital purchased new equipment and construction services costing \$31,720. Of this amount, \$21,202 was acquired through capital lease obligations and \$0 was included in accounts payable at December 31, 2017.

Debt

At December 31, 2019, the Hospital had \$12,466 in capital lease obligations outstanding. During 2019, the Hospital issued no new capital leases.

At December 31, 2018, the Hospital had \$29,046 in capital lease obligations outstanding. During 2018, the Hospital issued a capital lease of \$27,221 for equipment.

At December 31, 2017, the Hospital had \$132,325 in capital lease obligations outstanding. During 2017, the Hospital issued a capital lease of \$21,202 for equipment.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 620.365.1000.

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 294,141	\$ 147,591
Patient accounts receivable, net of allowance for doubtful accounts; 2019 - \$1,797,221, 2018 - \$1,636,841	3,140,647	2,904,619
Estimated amounts due from third-party payers	639,916	7,765
Supplies	528,752	501,878
Prepaid expenses and other	383,321	613,764
Total current assets	4,986,777	4,175,617
Noncurrent Cash and Deposits		
Contributions restricted for capital acquisitions	620	20,725
Capital Assets, Net of Accumulated Depreciation	642,219	743,911
Total assets	\$ 5,629,616	\$ 4,940,253

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of capital lease and note payable	\$ 9,293	\$ 16,579
Accounts payable	1,124,761	1,064,376
Accrued expenses	704,332	665,125
Estimated amounts due to third-party payers	-	599,890
Payable to Allen County, Kansas	160,358	190,358
	<u>1,998,744</u>	<u>2,536,328</u>
Total current liabilities	1,998,744	2,536,328
Capital Lease and Note Payable	<u>3,173</u>	<u>12,467</u>
Total liabilities	<u>2,001,917</u>	<u>2,548,795</u>
Net Position		
Net investment in capital assets	461,410	489,407
Restricted - expendable for capital acquisitions	620	20,725
Unrestricted	3,165,669	1,881,326
	<u>3,627,699</u>	<u>2,391,458</u>
Total net position	3,627,699	2,391,458
Total liabilities and net position	<u>\$ 5,629,616</u>	<u>\$ 4,940,253</u>

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$2,845,702, 2018 - \$2,449,667	\$ 21,886,940	\$ 20,979,563
Other	1,325,445	1,212,918
	<u>23,212,385</u>	<u>22,192,481</u>
Operating Expenses		
Salaries and wages	7,801,386	7,149,769
Employee benefits	2,005,714	2,051,596
Supplies	2,570,892	2,773,806
Purchased services and professional fees	2,866,364	3,173,340
Contract services	3,815,521	3,555,691
Repairs and maintenance	502,170	424,643
Rents and leases	84,698	88,009
Utilities	362,107	370,190
Other	800,453	761,392
Depreciation and amortization	154,702	274,990
	<u>20,964,007</u>	<u>20,623,426</u>
	<u>2,248,378</u>	<u>1,569,055</u>
Operating Income		
Nonoperating Revenues (Expenses)		
Investment income	3,160	7,457
Interest expense	(713)	(2,626)
Loss on sale of capital assets	7	-
Contributions to Allen County, Kansas	(1,014,736)	(1,527,585)
Noncapital grants and gifts	-	747
	<u>(1,012,282)</u>	<u>(1,522,007)</u>
	<u>1,236,096</u>	<u>47,048</u>
Excess of Revenues Over Expenses Before Capital Gifts and Grants		
Capital Gifts and Grants	<u>145</u>	<u>12,943</u>
Increase in Net Position	1,236,241	59,991
Net Position, Beginning of Year	<u>2,391,458</u>	<u>2,331,467</u>
Net Position, End of Year	<u>\$ 3,627,699</u>	<u>\$ 2,391,458</u>

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 20,418,871	\$ 20,745,093
Payments to suppliers and contractors	(10,671,929)	(11,708,581)
Payments to or on behalf of employees	(9,807,100)	(9,201,365)
Other receipts, net	<u>1,325,445</u>	<u>1,212,918</u>
Net cash provided by operating activities	<u>1,265,287</u>	<u>1,048,065</u>
Cash Flows From Noncapital Financing Activities		
Noncapital grants and gifts	-	747
Contributions paid to Allen County, Kansas	<u>(1,014,736)</u>	<u>(1,527,585)</u>
Net cash used in noncapital financing activities	<u>(1,014,736)</u>	<u>(1,526,838)</u>
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	145	12,943
Change in payable to Allen County, Kansas	(4,718)	(100,167)
Principal paid on long-term debt	(16,580)	(130,500)
Interest paid on capital debt and leases	(713)	(2,626)
Purchase of capital assets	(105,407)	(25,853)
Proceeds from sale of capital assets	<u>7</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(127,266)</u>	<u>(246,203)</u>
Cash Flows From Investing Activities		
Interest and dividends on investments	<u>3,160</u>	<u>7,457</u>
Net cash provided by investing activities	<u>3,160</u>	<u>7,457</u>
Increase (Decrease) in Cash and Cash Equivalents	126,445	(717,519)
Cash and Cash Equivalents, Beginning of Year	<u>168,316</u>	<u>885,835</u>
Cash and Cash Equivalents, End of Year	<u>\$ 294,761</u>	<u>\$ 168,316</u>
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 294,141	\$ 147,591
Cash and cash equivalents in noncurrent cash and deposits	<u>620</u>	<u>20,725</u>
Total cash and cash equivalents	<u>\$ 294,761</u>	<u>\$ 168,316</u>

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	\$ 2,248,378	\$ 1,569,055
Depreciation and amortization	154,702	274,990
Provision for uncollectible accounts	2,845,702	2,449,667
Changes in operating assets and liabilities		
Patient accounts receivable	(3,081,730)	(2,509,310)
Accounts payable and accrued expenses	126,707	(355,877)
Estimated amounts due to third-party payers	(1,232,041)	(174,827)
Other assets	203,569	(205,633)
	\$ 1,265,287	\$ 1,048,065
 Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ -	\$ 27,221
Capital assets transferred to Allen County, Kansas	25,282	-
Capital asset acquisitions included in accounts payable	7,985	35,100

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Allen County Hospital d/b/a Allen County Regional Hospital (the Hospital) is an acute care hospital located in Iola, Kansas. The Hospital is a component unit of Allen County, Kansas (the County), and the Board of County Commissioners appoints members to the Board of Trustees (the Board) of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Allen County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of deposits and money market accounts.

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss of medical malpractice claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

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

Other Revenue

The Hospital participated in the 340B Drug Pricing Program (the Program), enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). The Hospital generated approximately \$1,066,200 and \$949,500 of gross revenue from the Program in 2019 and 2018, respectively, which is recorded in other operating revenue in the statements of revenues, expenses and changes in net position.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Allen County Hospital
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A Component Unit of Allen County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 25 years
Buildings and leasehold improvement	5 – 40 years
Equipment	3 – 20 years
Computer software	3 – 10 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Allen County Hospital
d/b/a Allen County Regional Hospital
A Component Unit of Allen County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were approximately \$210,400 and \$202,600 in 2019 and 2018, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under the Medicare Program to eligible hospitals that demonstrate meaningful use of certified EHR technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20 percent incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Hospital inpatient acute care and outpatient services rendered to Medicare Program beneficiaries are paid based on a cost reimbursement methodology. Clinic health care services rendered to Medicare Program beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Estimated settlements have been reflected in the accompanying financial statements. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2 percent went into effect. Under current legislation, sequestration is scheduled to last until 2025.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 70 percent and 71 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and are subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

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Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 1,280,291	\$ 1,211,008
Medicaid	379,348	315,322
Other third-party payers	1,221,469	1,153,056
Patients	<u>2,056,759</u>	<u>1,862,074</u>
	4,937,867	4,541,460
Less allowance for uncollectible accounts	<u>1,797,221</u>	<u>1,636,841</u>
	<u>\$ 3,140,646</u>	<u>\$ 2,904,619</u>

Note 4: Deposits, Investments and Investment Income

Deposits

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

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2019 and 2018, none of the Hospital's bank balances of \$201,263 and \$71,241, respectively, were exposed to custodial credit risk.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

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The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Hospital has the following recurring fair value measurements as of December 31, 2019 and 2018:

- Money market mutual funds of \$96,203 and \$354,269, respectively, are valued using quoted market prices (Level 1 inputs).

At December 31, 2019 and 2018, the Hospital had the following investments and maturities:

Type	Fair Value	December 31, 2019 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 96,203	\$ 96,203	\$ -	\$ -	\$ -

Type	Fair Value	December 31, 2018 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 354,269	\$ 354,269	\$ -	\$ -	\$ -

Interest Rate Risk - The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019, the Hospital's investments in money market mutual funds were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. At December 31, 2019, the Hospital's money market mutual fund is invested in the Federated Government Obligation Fund #395.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 198,558	\$ (185,953)
Investments	<u>96,203</u>	<u>354,269</u>
	<u>\$ 294,761</u>	<u>\$ 168,316</u>
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 294,141	\$ 147,591
Noncurrent cash and investments	<u>620</u>	<u>20,725</u>
	<u>\$ 294,761</u>	<u>\$ 168,316</u>

Investment income for the years ended December 31, 2019 and 2018 amounted to \$3,160 and \$7,457, respectively.

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 303,303	\$ -	\$ -	\$ -	\$ 303,303
Buildings	69,125	-	-	-	69,125
Equipment	3,618,239	59,842	-	(25,282)	3,652,799
Construction in progress	-	18,450	-	-	18,450
	<u>3,990,667</u>	<u>78,292</u>	<u>-</u>	<u>(25,282)</u>	<u>4,043,677</u>
Less accumulated depreciation					
Buildings	21,120	3,840	-	-	24,960
Equipment	3,225,636	150,862	-	-	3,376,498
	<u>3,246,756</u>	<u>154,702</u>	<u>-</u>	<u>-</u>	<u>3,401,458</u>
Capital assets, net	<u>\$ 743,911</u>	<u>\$ (76,410)</u>	<u>\$ -</u>	<u>\$ (25,282)</u>	<u>\$ 642,219</u>
	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 303,303	\$ -	\$ -	\$ -	\$ 303,303
Buildings	69,125	-	-	-	69,125
Equipment	3,530,065	88,174	-	-	3,618,239
	<u>3,902,493</u>	<u>88,174</u>	<u>-</u>	<u>-</u>	<u>3,990,667</u>
Less accumulated depreciation					
Buildings	17,280	3,840	-	-	21,120
Equipment	2,954,486	271,150	-	-	3,225,636
	<u>2,971,766</u>	<u>274,990</u>	<u>-</u>	<u>-</u>	<u>3,246,756</u>
Capital assets, net	<u>\$ 930,727</u>	<u>\$ (186,816)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 743,911</u>

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Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2019	2018
Payable to suppliers and vendors for operations	\$ 1,124,761	\$ 1,064,376
Payable to employees (including payroll taxes and benefits)	702,934	663,690
Other	1,398	1,435
	\$ 1,829,093	\$ 1,729,501

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. Effective July 1, 2018, the Hospital changed to a fully insured coverage plan with Blue Cross Blue Shield. Prior to July 1, 2018, the Hospital was self-insured for health claims of participating employees and dependents up to specific claim amounts of \$50,000 per individual for 2018, and \$1,000,000 annual aggregate. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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Activity in the Hospital's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ -	\$ 173,500
Current year claims incurred and changes in estimates for claims incurred in prior years	-	977,667
Claims and expenses paid	-	(1,151,167)
Balance, end of year	\$ -	\$ -

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 29,046	\$ -	\$ 16,580	\$ 12,466	\$ 9,293
Total long-term debt	\$ 29,046	\$ -	\$ 16,580	\$ 12,466	\$ 9,293
2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 132,325	\$ 27,221	\$ 130,500	\$ 29,046	\$ 16,579
Total long-term debt	\$ 132,325	\$ 27,221	\$ 130,500	\$ 29,046	\$ 16,579

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Capital Lease Obligations

The Hospital is obligated under financing agreements for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2019 and 2018 totaled \$48,419 and \$146,169, and net of accumulated depreciation of \$26,477 and \$91,364, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at the rate of 3.66 percent with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending		
December 31,		
2020	\$	9,595
2021		3,197
Total minimum lease payments		12,792
Less amount representing interest		326
Present value of future minimum lease payments	\$	12,466

Note 10: Allen County Community Foundation

The Allen County Community Foundation (Foundation) is an independent non-profit corporation established in 2012 with the purpose to improve the quality of life in Allen County. In 2010, the Foundation started the Uniting for Excellence Capital Campaign to raise funds for the construction and equipment for the new hospital building and the Uniting for Excellence Endowment Fund to create a permanent endowment for benefit of the Hospital. An advisory committee appointed by the board of directors of the Foundation determines the amount, timing and purpose of the distribution of Foundation funds. The Foundation also has funds for the benefit of specific Hospital departments. The Hospital has not recorded an interest in the Foundation due to the lack of control and direction of the funds.

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Note 11: Pledge of Revenue and Operation Agreement

Effective December 1, 2011, the Board of Trustees of Allen County Hospital (the Board) entered into a pledge of revenue and operation agreement with Allen County, Kansas (the County). Under the agreement, the County has delegated management, control and operations of the Hospital to the Board. In exchange, the Board has pledged excess revenues generated from the operations of the Hospital for payment of the debt service on the Series 2011, Series 2012, Series 2013, Series 2017A and Series 2017B Kansas Public Building Commission Revenue Bonds issued by the Allen County, Kansas Public Building Commission (the PBC). Excess revenues are defined by the pledge agreement and are pledged until the bonds have matured. The Series 2011 and 2012 bonds were issued to finance the construction and equipping of the new Hospital building, and the Series 2013 bonds were issued to provide working capital for operations of the Hospital. During 2017, the County refunded the Series 2011, Series 2012 and Series 2013 bonds with the issuance of the Series 2017A and 2017B bonds. During the years ended December 31, 2019 and 2018, the Hospital did not have a transfer of revenues under the pledge agreement to the County.

In connection with the pledge of revenues and operation agreement, the Hospital is required, among other things, to maintain certain covenants, including a historical debt service coverage ratio of at least 1.0. At December 31, 2019, the Hospital's historical debt service coverage ratio was less than 1.0 and the Board was required to analyze Hospital operations and report findings to the PBC and the County.

The debt service requirements of the County for the Series 2017A and 2017B bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 1,410,750	\$ 525,000	\$ 885,750
2021	1,411,550	540,000	871,550
2022	2,221,258	1,365,000	856,258
2023	2,218,133	1,420,000	798,133
2024	2,216,793	1,480,000	736,793
2025–2029	9,968,808	7,295,000	2,673,808
2030–2034	8,298,163	7,035,000	1,263,163
2035–2036	3,325,350	3,170,000	155,350
	\$ 31,070,805	\$ 22,830,000	\$ 8,240,805

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Payments of debt service requirements are partially funded through sales tax appropriations from the City of Iola, Kansas, and Allen County, Kansas, which are set to expire on December 31, 2019 and 2020, respectively. During the years ended December 31, 2019 and 2018, the Hospital contributed \$1,014,736 and \$1,527,585, respectively, to the County to assist with debt service requirements.

For the 2017A and 2017B bonds, interest payments of \$899,000 and principal payments of \$515,000 were made from proceeds of sales tax appropriations, excess project funds and contributions from the Hospital during the year ended December 31, 2019.

Note 12: Management Agreement

Effective July 1, 2013, the Hospital entered into a management agreement with HCA. The agreement, which expires on June 30, 2020, provides for certain administrative, management and purchasing services to be provided by HCA to the Hospital. The Hospital has also entered into a data processing and computer services agreement with HCA. The agreement, which expires on December 30, 2020, provides for use of the HCA financial reporting system, network and related support. Payments made to HCA and its related parties for the years ended December 31, 2019 and 2018 were approximately \$1,260,000 and \$1,385,000, respectively. Included in accounts payable at December 31, 2019 and 2018 are approximately \$149,000 and \$201,000, respectively, in amounts due to HCA for services received.

During 2019, the Hospital notified HCA of their intent to terminate the management agreement upon the expiration of the agreement on June 30, 2020, see *Note 16*.

Note 13: Operating Leases

Noncancellable operating leases for property and equipment expire in various years through 2021 and require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2019, are:

2020	\$ 55,845
2021	<u>10,200</u>
Future minimum lease payments	<u><u>\$ 66,045</u></u>

Rental expense for all operating leases was \$84,698 and \$88,009 in 2019 and 2018, respectively.

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Note 14: Pension Plan

Effective July 1, 2013, the Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital’s governing body. The pension plan was last amended effective January 1, 2018. Contributions to the plan by plan participants and the Hospital totaled \$436,628 and \$217,859 during 2019, and \$430,796 and \$225,805 during 2018, respectively. Employer contributions to the plan are based on the following contribution types:

Employer Basic Contributions

The Hospital contributes 3 percent of the participant’s eligible compensation for all eligible participants earning less than 200 percent of the U.S. poverty guidelines for the plan year.

Employer Matching Contributions

The Hospital matches 100 percent of the participants’ contributions up to the limit specified below based upon years of service worked:

Years of Service	% of Compensation
Less than 5 years	3%
5 but less than 10	4%
10 but less than 15	5%
15 or more years	6%

Note 15: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Note 16: Subsequent Events

During 2019, the Hospital and County entered into a Lease Agreement (the Lease) with Saint Luke's Hospital of Allen County, Inc. (SLACRH) and its sole member Saint Luke's Health System. The Lease is effective July 1, 2020 and provides SLACRH the right to lease and operate Allen County Regional Hospital and related facilities for an initial term of 10 years with an optional 5 year renewal and an option to purchase.

COVID-19

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. In April 2020, due to this public health emergency, the System requested and received advance payments from Medicare of approximately \$3,730,000.

In March 2020, the United States Senate passed a third stimulus bill, titled the *Coronavirus Aid Relief, and Economic Security Act* (CARES Act). The Hospital received approximately \$5,750,000 in a combination of funding programs as part of the CARES Act, State of Kansas funding and Small Business Administration Payroll Protection Program, which are to be used to cover health care related expenses or lost revenues that are attributable to the coronavirus pandemic and qualified payroll and other expenses. This funding is subject to terms and conditions which could result in paybacks as additional clarification to the CARES Act is made available.