

Rooks County Health Center

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Rooks County Health Center
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Rooks County Health Center
Plainville, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Rooks County Health Center, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Rooks County Health Center'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 provisions of the Kansas Municipal Audit and Accounting Guide. Our audits were also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rooks County Health Center 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

Management has omitted 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 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rooks County Health Center's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2020, on our consideration of Rooks County Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rooks County Health Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rooks County Health Center's internal control over financial reporting and compliance.

BKD, LLP

Rooks County Health Center

Balance Sheets

December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 5,847,728	\$ 4,203,447
Cash held by RCHEA	1,350,996	3,551,038
Held by trustee for debt service	516,139	446,387
Patient accounts receivable, net of allowance; 2019 – \$557,171; 2018 – \$856,685	2,105,985	2,456,591
Property taxes receivable	665,816	647,710
Supplies	280,264	258,587
Prepaid expenses and other	220,697	165,051
	<u>10,987,625</u>	<u>11,728,811</u>
Total current assets		
	10,987,625	11,728,811
Noncurrent Cash and Investments		
Designated by Board of Directors	75,333	80,658
Held by Foundation	1,068,018	831,735
Held by trustee for debt service	83	123,320
Held by Foundation for capital acquisitions	134,477	75,317
	<u>1,277,911</u>	<u>1,111,030</u>
Capital Assets, Net	<u>13,317,558</u>	<u>11,661,590</u>
Leverage Loan Receivable	<u>5,609,620</u>	<u>5,609,620</u>
Total assets	<u>\$ 31,192,714</u>	<u>\$ 30,111,051</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 6,436,280	\$ 2,069,348
Accounts payable	741,203	728,328
Accrued salaries and benefits	537,045	460,682
Accrued compensated absences	453,753	431,904
Other accrued liabilities	255,497	251,549
Estimated amounts due to third-party payers	<u>285,000</u>	<u>500,000</u>
Total current liabilities	8,708,778	4,441,811
Long-term Debt	<u>16,749,000</u>	<u>20,201,983</u>
Total liabilities	<u>25,457,778</u>	<u>24,643,794</u>
Deferred Inflows of Resources		
Property taxes	<u>665,816</u>	<u>647,710</u>
Net Position		
Net investment in capital assets	3,695,981	3,077,199
Restricted - expendable for		
Debt service	516,139	446,387
Capital acquisitions	134,477	75,317
Unrestricted	<u>722,523</u>	<u>1,220,644</u>
Total net position	<u>5,069,120</u>	<u>4,819,547</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 31,192,714</u>	<u>\$ 30,111,051</u>

Rooks County Health Center
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$860,334; 2018 – \$269,196	\$ 15,988,465	\$ 15,601,174
Other	210,912	208,685
	16,199,377	15,809,859
Operating Expenses		
Salaries and wages	6,718,651	6,466,989
Employee benefits	1,843,597	1,531,230
Supplies and other	6,538,190	7,103,050
Depreciation and amortization	1,393,829	1,558,852
	16,494,267	16,660,121
Operating Loss	(294,890)	(850,262)
Nonoperating Revenues (Expenses)		
Property taxes	678,540	649,498
Investment income	149,307	121,580
Interest expense	(691,184)	(719,129)
Debt issuance costs	-	(283,759)
Gain on sale of capital assets	2,850	500
Impairment gain, net of insurance recoveries	29,796	-
Noncapital grants and gifts	375,154	229,940
	544,463	(1,370)
Increase (Decrease) in Net Position	249,573	(851,632)
Net Position, Beginning of Year	4,819,547	5,671,179
Net Position, End of Year	\$ 5,069,120	\$ 4,819,547

Rooks County Health Center
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 16,124,071	\$ 16,668,536
Payments to suppliers and contractors	(6,492,414)	(6,633,562)
Payments to employees	(8,460,088)	(7,921,684)
Other receipts, net	<u>198,412</u>	<u>(224,947)</u>
Net cash provided by operating activities	<u>1,369,981</u>	<u>1,888,343</u>
Noncapital Financing Activities		
Property taxes	678,540	649,498
Noncapital grants and gifts	<u>375,154</u>	<u>229,940</u>
Net cash provided by noncapital financing activities	<u>1,053,694</u>	<u>879,438</u>
Capital and Related Financing Activities		
Proceeds from issuance of note payable to bank	-	10,354,000
Proceeds from issuance of long-term debt	2,983,297	12,772,983
Principal paid on long-term debt	(2,069,348)	(12,370,652)
Interest paid on long-term debt	(691,184)	(719,129)
Debt issuance costs paid	-	(283,759)
Proceeds from sale of capital assets	2,850	500
Proceeds from insurance recoveries	52,439	-
Purchases of capital assets	<u>(3,164,827)</u>	<u>(1,244,425)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,886,773)</u>	<u>8,509,518</u>
Investing Activities		
Interest received on investments	149,307	121,580
Purchase of investments	(295,443)	-
Proceeds from disposition of investments	123,237	1,069,915
Payment of note receivable	<u>-</u>	<u>(5,609,620)</u>
Net cash used in investing activities	<u>(22,899)</u>	<u>(4,418,125)</u>
Increase (Decrease) in Cash and Cash Equivalents	(485,997)	6,859,174
Cash and Cash Equivalents, Beginning of Year	<u>8,206,811</u>	<u>1,347,637</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,720,814</u>	<u>\$ 8,206,811</u>

Rooks County Health Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 5,847,728	\$ 4,203,447
Cash held by RCHEA in current assets	1,350,996	3,551,038
Cash held by trustee for debt service in current assets	516,139	446,387
Cash designated by Board of Directors in noncurrent cash and investments	5,951	5,939
	\$ 7,720,814	\$ 8,206,811
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (294,890)	\$ (850,262)
Depreciation and amortization	1,393,829	1,558,852
Provision for uncollectible accounts	860,334	269,196
Changes in operating assets and liabilities		
Patient accounts receivable	(509,728)	(968,202)
Estimated amounts due from and to third-party payers	(215,000)	1,766,368
Supplies	(21,677)	24,158
Prepaid expenses and other	(36,284)	29,968
Accounts payable and accrued expenses	193,397	58,265
Net cash provided by operating activities	\$ 1,369,981	\$ 1,888,343
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 306,952	\$ 385,314
Loss on impairment of capital assets	\$ 42,005	\$ -

Rooks County Health Center

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

Plainville Rural Hospital District No. 1 d/b/a Rooks County Health Center (Health Center) is a municipality of the state of Kansas and is governed by a Board of Directors (Board) who is elected by the residents of the District. The Health Center is licensed as a critical access hospital (CAH) and primarily earns revenues by providing inpatient, outpatient and emergency care services. The Health Center also owns and operates a limited care residential retirement facility.

Rooks County Healthcare Endowment Association (RCHEA), is a 501(c)(3) nonprofit corporation. The Health Center management performs the day-to-day management of RCHEA's operations and the debt of RCHEA is expected to be repaid entirely with the resources of the Health Center through lease payments made to RCHEA for the use of certain hospital space. RCHEA is a separate legal entity but is financially integrated with the Health Center and is reported as a blended component unit of the Health Center and does not issue separate financial statements. The sole corporate member of RCHEA is the Health Center. RCHEA has the same fiscal year as the Health Center.

Basis of Accounting and Presentation

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

Budgetary Principles

The Health Center is required by state statutes to adopt annual budgets on or before August 25 for the ensuing calendar year. The Board may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

For budget purposes, the general fund utilizes the modified accrual basis of accounting. The modification in such method from the accrual basis is that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no material encumbrances at December 31, 2019 and 2018. Budgeted revenue and expenditure amounts represent the original budget adopted by the Board.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources 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 Health Center 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 of certificates of deposit and money market funds.

Noncurrent Cash and Investments and Investment Income

Noncurrent cash and investments consist of funds internally designated by the Board for future capital acquisitions and employee benefits, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Designated by Board funds include certificates of deposit carried at amortized cost. Noncurrent cash and investments also include assets held by the Rooks County Healthcare Foundation (Foundation), restricted funds by donors for capital acquisitions and restricted funds for debt service.

Investment income consists of interest income earned on cash and noncurrent cash and investments.

Patient Accounts Receivable

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

Supplies

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

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Capital Assets (Including Intangible Assets)

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

Land improvements	5-25 years
Buildings	5-40 years
Equipment	5-25 years
Intangible asset	20 years

Capital Asset Impairment

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

Impairment gain, net of insurance recoveries, of \$29,796 was recognized for the damaged roof for the year ended December 31, 2019. The impairment gain, net of insurance recoveries is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position. The impairment was determined based on the restoration cost approach.

No asset impairment was recognized during the year ended December 31, 2018.

Compensated Absences

The Health Center's policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in the case of accumulated vacation, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. 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.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Risk Management

The Health Center 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 except for employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Health Center is self-insured for a portion of its exposure to risk of loss from employee health and dental claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Deferred Inflows of Resources

The Health Center reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied against members of the tax district.

Net Position

Net position of the Health Center is classified in three components on its balance sheets.

- 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 Health Center, 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.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center 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.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Charity Care

The Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Property Taxes

The Health Center received approximately 4% of its financial support from property taxes in 2019 and 2018.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the county. Property owners have the option of paying one half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as taxes receivable, net of amounts received and anticipated delinquencies. Taxes receivable are also deferred and amortized ratably to income throughout the fiscal year.

Income Taxes

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

RCHEA has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, RCHEA is subject to federal income tax on any unrelated business taxable income. RCHEA files tax returns in the U.S. federal jurisdiction.

Note 2: Deposits and Investments

Deposits

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

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

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

At December 31, 2019 and 2018, respectively, \$1,150,960 and \$4,057,413 of the Health Center's bank balances of \$5,919,325 and \$4,307,413 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the than the Health Center's name	\$ 1,150,960	\$ 4,057,413

Cash Held by RCHEA

At December 31, 2019, RCHEA's cash accounts exceeded federally insured limits by approximately \$1,101,000.

Investments

The Health Center 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.

Investments include funds designated by the Board, which consist of certificates of deposit carried at amortized cost. Investments also include assets held by the Foundation, which are pooled investments consisting primarily of certificates of deposit and money market mutual funds (*Note 13*), and restricted funds for debt service, which consist primarily of money market mutual funds.

Summary of Carrying Values

The carrying values of deposits, including cash held by RCHEA, and investments shown above are included in the balance sheets as follows:

	2019	2018
Carrying value		
Deposits	\$ 7,204,675	\$ 7,760,424
Investments	1,788,099	1,551,478
	\$ 8,992,774	\$ 9,311,902

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

	2019	2018
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,847,728	\$ 4,203,447
Cash held by RCHEA	1,350,996	3,551,038
Designated by Board of Directors	75,333	80,658
Held by Foundation	1,202,495	907,052
Held by trustee for debt service	516,222	569,707
	\$ 8,992,774	\$ 9,311,902

Note 3: Cash Held by RCHEA

Reserve Funds

As a requirement of loan closing for the Bridge Loan and Notes A and B (discussed in *Note 7*), reserve funds were created to pay the annual compliance, audit and tax fees as well as fund the Health Center's Bridge Loan principal and interest payments. The funds are pledged to the lender as additional security for the loans. At December 31, 2019 and 2018, the balance of the reserve funds was \$1,350,996 and \$3,551,038, respectively.

Note 4: Patient Accounts Receivable

The Health Center 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:

	2019	2018
Medicare	\$ 827,970	\$ 1,553,195
Medicaid	142,767	60,035
Blue Cross	492,058	423,661
Other third-party payers	637,578	405,113
Self-pay	562,783	871,272
	2,663,156	3,313,276
Less allowance for uncollectible accounts	557,171	856,685
	\$ 2,105,985	\$ 2,456,591

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Construction in progress relates to the Phase II remodel project that is estimated to cost approximately \$4,400,000. At December 31, 2019, the remaining commitment on these contracts is approximately \$600,000. The Phase II remodel project was completed in May 2020.

Note 6: Leverage Loan Receivable

The Health Center entered into an agreement on August 2, 2018, to lend \$5,609,620 to COCRF Investor 117, LLC. Interest of 1% accrues on the loan receivable balance from the date of the issuance through maturity, with interest only payments beginning October 1, 2018, and paid quarterly through December 31, 2024. Beginning on April 1, 2025, and continuing until the maturity date of December 31, 2052, COCRF Investor 117, LLC will make quarterly payments of principal and interest sufficient to amortize the notes by the maturity date. The note is secured by equity interests of 99.99% of CHHS Subsidiary CDE 41, LLC.

The Health Center used the proceeds of the Bridge Loan (*Note 7*) to fund \$2,400,000 of this leverage loan receivable.

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Health Center for the years ended December 31, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<u>Health Center</u>					
Series 2018A Refunding Revenue Bonds	\$ 9,940,000	\$ -	\$ (525,000)	\$ 9,415,000	\$ 620,000
Series 2018B Revenue Bonds	2,832,983	2,983,297	-	5,816,280	5,816,280
Bridge loan payable	1,544,348	-	(1,544,348)	-	-
	<u>\$ 14,317,331</u>	<u>\$ 2,983,297</u>	<u>\$ (2,069,348)</u>	<u>\$ 15,231,280</u>	<u>\$ 6,436,280</u>
<u>RCHEA</u>					
Note payable A	\$ 5,609,620	\$ -	\$ -	\$ 5,609,620	\$ -
Note payable B	2,344,380	-	-	2,344,380	-
	<u>\$ 7,954,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,954,000</u>	<u>\$ -</u>
	<u>\$ 22,271,331</u>	<u>\$ 2,983,297</u>	<u>\$ (2,069,348)</u>	<u>\$ 23,185,280</u>	<u>\$ 6,436,280</u>

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<u>Health Center</u>					
Series 2011 Refunding Revenue Bonds	\$ 6,025,000	\$ -	\$ (6,025,000)	\$ -	\$ -
Series 2012 Refunding Revenue Bonds	5,490,000	-	(5,490,000)	-	-
Series 2018A Refunding Revenue Bonds	-	9,940,000	-	9,940,000	525,000
Series 2018B Revenue Bonds	-	2,832,983	-	2,832,983	-
Bridge loan payable	-	2,400,000	(855,652)	1,544,348	1,544,348
	<u>\$ 11,515,000</u>	<u>\$ 15,172,983</u>	<u>\$ (12,370,652)</u>	<u>\$ 14,317,331</u>	<u>\$ 2,069,348</u>
<u>RCHEA</u>					
Note payable A	\$ -	\$ 5,609,620	\$ -	\$ 5,609,620	\$ -
Note payable B	-	2,344,380	-	2,344,380	-
	<u>\$ -</u>	<u>\$ 7,954,000</u>	<u>\$ -</u>	<u>\$ 7,954,000</u>	<u>\$ -</u>
	<u>\$ 11,515,000</u>	<u>\$ 23,126,983</u>	<u>\$ (12,370,652)</u>	<u>\$ 22,271,331</u>	<u>\$ 2,069,348</u>

Hospital Refunding Revenue Bonds Series 2011

The Hospital Refunding Revenue Bonds Series 2011 (2011 Bonds) were issued in the principal amount of \$9,545,000. The 2011 Bonds are payable in annual installments through August 15, 2025, including interest at rates from 3.10% - 5.35%. The 2011 Bonds are secured by the net revenues of the Health Center. The 2011 Bonds were advance refunded during 2018 with the issuance of the Hospital Refunding Revenue Bonds Series 2018A.

Hospital Refunding Revenue Bonds Series 2012

The Hospital Refunding Revenue Bonds Series 2012 (2012 Bonds) were issued in the principal amount of \$6,035,000. The 2012 Bonds are payable in annual installments through August 15, 2028, including interest at rates from 1.90% - 4.85%. The 2012 Bonds are secured by the net revenues of the Health Center. The 2012 Bonds were advance refunded during 2018 with the issuance of the Hospital Refunding Revenue Bonds Series 2018A.

Hospital Refunding Revenue Bonds Series 2018A

The Hospital Refunding Revenue Bonds Series 2018A (2018A Bonds) were issued in the principal amount of \$9,940,000. The 2018A Bonds are payable in semi-annual installments through August 1, 2031, including interest at rates from 3.85% - 5.35%. The 2018A Bonds are secured by the net revenues of the Health Center.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Debt service requirements on the Hospital Refunding Revenue Bonds, Series 2018A as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Series 2018A Bonds Principal	Interest
2020	\$ 1,008,308	\$ 620,000	\$ 388,308
2021	1,002,016	640,000	362,016
2022	1,004,781	670,000	334,781
2023	1,011,184	705,000	306,184
2024	1,006,435	730,000	276,435
2025 - 2029	5,036,318	4,145,000	891,318
2030 - 2031	<u>2,005,560</u>	<u>1,905,000</u>	<u>100,560</u>
	<u>\$ 12,074,602</u>	<u>\$ 9,415,000</u>	<u>\$ 2,659,602</u>

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The indenture agreements also require the Health Center to comply with certain restrictive covenants such as a historical debt-service coverage of at least 1.25 and a minimum days' cash on hand of at least 45 days. The Health Center was compliant with the historical debt service coverage ratio and the minimum days' cash on hand covenant for the years ended December 31, 2019 and 2018.

Hospital Revenue Bonds Series 2018B

The Hospital Revenue Bonds Series 2018B (2018B Bonds) were issued in the aggregate amount not to exceed \$7,000,000. The 2018B Bonds are due and payable on December 1, 2020, and bear interest on the principal amount as advanced from time to time at 3.29% per annum. Interest payments are due on the first day of June and December starting with the first interest payment on December 1, 2018. The Health Center issued the 2018B Bonds to fund the Phase II remodel project. The 2018B Bonds provide temporary financing through the construction period and the United States Department of Agriculture (USDA) will provide the permanent financing through a direct loan as part of their Rural Development Program. The 2018B Bonds are secured by the net revenues of the Health Center.

Bridge Loan Payable

The Health Center entered into a note payable to bank (Bridge Loan) on August 2, 2018. The loan agreement stated that the Health Center shall make monthly payments of interest only on the outstanding principal balance accrued and accruing through the last day of the month at a rate of 6% and a final payment of all outstanding principal, accrued interest and any and all unpaid fees and other charges are due and payable on the maturity date, August 2, 2020. However, the Health Center made both principal and interest payments during 2018 and paid off the loan in full in March 2019. As a result, the outstanding loan balance as of December 31, 2018, is classified within current maturities of long-term debt in the accompanying balance sheets.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

RCHEA Notes Payable A and B

RCHEA (a qualified active low-income community business) executed loan agreements on August 2, 2018, that provide for borrowing of \$5,609,620 (Note A) and \$2,344,380 (Note B) from CHHS Subsidiary CDE 41, LLC. The notes are secured by a leasehold mortgage on certain areas of the hospital property.

Under the terms of the loan agreements, the loans have an interest rate of 1.44%, payable quarterly. RCHEA is not permitted to prepay any portion of the principal of the loans until the seventh anniversary date. Interest only payments of \$20,188 and \$8,437 are payable quarterly in arrears beginning September 1, 2018 through September 1, 2025, for Note A and Note B, respectively. For the period October 1, 2025 through December 1, 2052, principal and interest of \$62,308 is due for Note A and \$26,040 for Note B, respectively.

Under the terms of the loan agreements, RCHEA has certain compliance requirements, including compliance reporting and maintaining its status as a qualified active low-income community business as defined by the Internal Revenue Code.

At the end of the seven-year term, a put/call agreement may be exercised, whereby Capital One, National Association's interest in COCRF Investor 117, LLC (member of CHHS Subsidiary CDE 41, LLC) is sold to RCHEA.

Note 8: Employee Health Claims

The Health Center sponsors a self-insured employee health insurance plan. Substantially all of the Health Center's employees and their dependents are eligible to participate in the Health Center's employee health insurance plan. The Health Center reinsures a portion of its risk under that plan. The reinsurance arrangement generally covers claims totaling over \$30,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. 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 Health Center's estimate will change by a material amount in the near term.

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

	2019	2018
Balance, beginning of year	\$ 80,000	\$ 80,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,454,212	1,139,763
Claims and expenses paid	(1,414,212)	(1,139,763)
Balance, end of year	\$ 120,000	\$ 80,000

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Note 9: Professional Liability Coverage and Claims

The Health Center purchases professional liability insurance under a claims-made policy with a fixed premium, which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The Health Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive liability policy up to \$800,000 pursuant to any one judgment or settlement against the Health Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability 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 Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 10: Net Patient Service Revenue

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

Medicare. The Health Center is recognized as a CAH. Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Health Center is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Health Center and audits thereof by the Medicare administrative contractor.

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 66% and 64% of net patient service revenues 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 subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Note 11: Charity Care

The costs of charity care provided under the Health Center's charity care policy were approximately \$141,000 and \$94,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 12: Pension Plans

The Health Center provides a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established for all employee who are at least 21 years of age and have completed one year of service. The Health Center makes contributions up to 4% of the annual compensation that eligible employees voluntarily defer into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. Employees do not contribution to this 401a plan. Contributions to the plan made by the Health Center vest based upon the plan's vesting schedule and the employee's years of service with the Health Center. Contributions actually made by the Health Center aggregated approximately \$169,000 and \$166,000 during 2019 and 2018, respectively.

The Health Center provides one additional defined contribution plan (457 plan). The Health Center does not make contributions to the 457 plan. Contributions made by plan members aggregated approximately \$296,000 and \$260,000 during 2019 and 2018, respectively.

Note 13: Rooks County Healthcare Foundation

The Rooks County Healthcare Foundation (Foundation) is a 501(c)(3) nonprofit health organization, established to perpetuate the advancement of health, health care and medical education, research and welfare services for the residents of Rooks County, Kansas. The Foundation is a separate legal entity. The Foundation is not considered a component unit of the Health Center. From time to time, the Foundation will assist the Health Center in fund raising activities. As part of those fund raising activities, the Foundation will receive and hold donor contributed funds for the benefit of the Health Center. Those funds are reflected on the balance sheets as funds held by Foundation and consist of pooled investments containing certificates of deposit and money market mutual funds.

Note 14: Assets Held with Community Foundation

In 2014, the Health Center entered into a Designated Fund Agreement (the Agreement) with Heartland Community Foundation (Community Foundation) whereby an irrevocable contribution of approximately \$235,000 was made of permanently endowed funds to the Community Foundation. Under the Agreement, the Health Center has requested 5% of the net fair market value to be distributed to the Health Center each year. The Community Foundation has been granted variance power under the terms of the Agreement.

Rooks County Health Center
Notes to Financial Statements
December 31, 2019 and 2018

Note 15: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Health Center and its blended component unit, RCHEA, as of December 31, 2019 and 2018:

	December 31, 2019			
	Health Center	RCHEA	Eliminations	Total
Assets				
Current assets	\$ 9,636,629	\$ 1,350,996	\$ -	\$ 10,987,625
Noncurrent cash and investments	1,277,911	-	-	1,277,911
Capital assets, net	13,317,558	-	-	13,317,558
Leverage loan receivable	5,609,620	-	-	5,609,620
Total assets	\$ 29,841,718	\$ 1,350,996	\$ -	\$ 31,192,714
Liabilities				
Current liabilities	\$ 8,708,778	\$ -	\$ -	\$ 8,708,778
Long-term debt	8,795,000	7,954,000	-	16,749,000
Total liabilities	17,503,778	7,954,000	-	25,457,778
Deferred Inflows of Resources	665,816	-	-	665,816
Net Position (Deficit)	11,672,124	(6,603,004)	-	5,069,120
Total liabilities, deferred inflows of resources and net position	\$ 29,841,718	\$ 1,350,996	\$ -	\$ 31,192,714
December 31, 2018				
	Health Center	RCHEA	Eliminations	Total
Assets				
Current assets	\$ 8,177,773	\$ 3,551,038	\$ -	\$ 11,728,811
Noncurrent cash and investments	1,111,030	-	-	1,111,030
Capital assets, net	11,661,590	-	-	11,661,590
Leverage loan receivable	5,609,620	-	-	5,609,620
Total assets	\$ 26,560,013	\$ 3,551,038	\$ -	\$ 30,111,051
Liabilities				
Current liabilities	\$ 4,441,811	\$ -	\$ -	\$ 4,441,811
Long-term debt	12,247,983	7,954,000	-	20,201,983
Total liabilities	16,689,794	7,954,000	-	24,643,794
Deferred Inflows of Resources	647,710	-	-	647,710
Net Position	9,222,509	(4,402,962)	-	4,819,547
Total liabilities, deferred inflows of resources and net position	\$ 26,560,013	\$ 3,551,038	\$ -	\$ 30,111,051

Rooks County Health Center
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Health Center and its blended component unit, RCHEA, for the years ended December 31, 2019 and 2018:

	December 31, 2019			Total
	Health Center	RCHEA	Eliminations	
Operating Revenues	\$ 16,199,377	\$ -	\$ -	\$ 16,199,377
Operating Expenses	16,481,767	12,500	-	16,494,267
Nonoperating Revenues (Expenses)	658,966	(114,503)	-	544,463
Intercompany Grants and Rents	2,073,039	(2,073,039)	-	-
Increase (Decrease) in Net Position	2,449,615	(2,200,042)	-	249,573
Net Position, Beginning of Year	9,222,509	(4,402,962)	-	4,819,547
Net Position, End of Year	<u>\$ 11,672,124</u>	<u>\$ (6,603,004)</u>	<u>\$ -</u>	<u>\$ 5,069,120</u>

	December 31, 2018			Total
	Health Center	RCHEA	Eliminations	
Operating Revenues	\$ 15,809,859	\$ -	\$ -	\$ 15,809,859
Operating Expenses	16,226,489	433,632	-	16,660,121
Nonoperating Revenues (Expenses)	46,022	(47,392)	-	(1,370)
Intercompany Grants and Rents	3,921,938	(3,921,938)	-	-
Increase (Decrease) in Net Position	3,551,330	(4,402,962)	-	(851,632)
Net Position, Beginning of Year	5,671,179	-	-	5,671,179
Net Position, End of Year	<u>\$ 9,222,509</u>	<u>\$ (4,402,962)</u>	<u>\$ -</u>	<u>\$ 4,819,547</u>

Rooks County Health Center
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statements of cash flows information for the Health Center and its blended component unit, RCHEA, as of December 31, 2019 and 2018:

	December 31, 2019			Total
	Health Center	RCHEA	Eliminations	
Net cash provided by (used in):				
Operating Activities	\$ 1,382,481	\$ (12,500)	\$ -	\$ 1,369,981
Noncapital Financing Activities	3,126,733	(2,073,039)	-	1,053,694
Capital and Related Financing Activities	(2,772,270)	(114,503)	-	(2,886,773)
Investing Activities	<u>(22,899)</u>	<u>-</u>	<u>-</u>	<u>(22,899)</u>
Increase (Decrease) in Cash and Cash Equivalents	1,714,045	(2,200,042)	-	(485,997)
Cash and Cash Equivalents, Beginning of Year	<u>4,655,773</u>	<u>3,551,038</u>	<u>-</u>	<u>8,206,811</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,369,818</u>	<u>\$ 1,350,996</u>	<u>\$ -</u>	<u>\$ 7,720,814</u>
	December 31, 2018			Total
	Health Center	RCHEA	Eliminations	
Net cash provided by (used in):				
Operating Activities	\$ 2,321,975	\$ (433,632)	\$ -	\$ 1,888,343
Noncapital Financing Activities	4,801,376	(3,921,938)	-	879,438
Capital and Related Financing Activities	602,910	7,906,608	-	8,509,518
Investing Activities	<u>(4,418,125)</u>	<u>-</u>	<u>-</u>	<u>(4,418,125)</u>
Increase in Cash and Cash Equivalents	3,308,136	3,551,038	-	6,859,174
Cash and Cash Equivalents, Beginning of Year	<u>1,347,637</u>	<u>-</u>	<u>-</u>	<u>1,347,637</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,655,773</u>	<u>\$ 3,551,038</u>	<u>\$ -</u>	<u>\$ 8,206,811</u>

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Note 16: Compliance with Budgetary Statutes

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Health Center's enterprise fund, which are on an annualized calendar year basis as follows:

	2019		
	Actual	Budget	Variance Under (Over)
Employee Benefits			
Revenues			
Taxes	\$ 678,540	\$ 665,816	\$ (12,724)
Expenses			
Employee benefits	678,540	665,816	(12,724)
Excess (deficit) of revenues over expenses	\$ -	\$ -	\$ -
	2018		
	Actual	Budget	Variance Under (Over)
Employee Benefits			
Revenues			
Taxes	\$ 649,498	\$ 647,710	\$ (1,788)
Expenses			
Employee benefits	649,498	647,710	(1,788)
Excess (deficit) of revenues over expenses	\$ -	\$ -	\$ -

Note 17: Contingencies

General Litigation

The Health Center is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the Health Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Health Center 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.

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

Health Insurance Assessment

The Health Center is the subject of an investigation regarding the providing of minimum essential health insurance coverage to at least 95% of the Health Center's full-time employees (and their dependents). Management believes the Health Center's employee benefit records fully support that the Health Center did indeed provide minimum essential health insurance coverage to at least 95% of the Health Center's full-time employees (and their dependents) and intends to vigorously defend the Health Center in this matter. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 18: Subsequent Events

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 Health Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Health Center received approximately \$504,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain the stimulus payments.

On April 13, 2020, the Health Center obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$1,713,000 at 1.00% interest with a maturity date of April 13, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On April 21, 2020, the Health Center received approximately \$3,008,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Health Center will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Health Center. The Health Center's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Health Center and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is not paid in full, the Centers for Medicare and Medicaid Services will expect the Health Center to submit payment of any unpaid balance. Acute care and critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Health Center may request extended repayment plans for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

Rooks County Health Center

Notes to Financial Statements

December 31, 2019 and 2018

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of the hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Health Center received \$100,000 on April 24, 2020, related to this special emergency grant.

On May 6, 2020, the Health Center received approximately \$3,448,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

Note 19: Future Change in Accounting Principle

Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Health Center is evaluating the impact the statement will have on the financial statements.

Rooks County Health Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity ID Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture: Community Facilities Loans and Grants Cluster	10.766		\$ -	\$ 7,000,000

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of Rooks County Health Center under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Rooks County Health Center, it is not intended to and does not present the balance sheets, changes in net position, or cash flows of Rooks County Health Center.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Health Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The Health Center issued the 2018B Bonds to fund the Phase II remodel project. The 2018B Bonds provide temporary financing through the construction period and the United States Department of Agriculture (USDA) will provide the permanent financing through a direct loan, which is to not to exceed \$7,000,000, as part of their Rural Development Program. The balance outstanding at December 31, 2019, of the 2018B Bonds, is \$5,816,280, as reported in the Health Center's balance sheet. Loans outstanding at the beginning of the year (\$2,832,983) and loans made during the year (\$2,983,297) as well as expenditures incurred and approved by the USDA for which funds have not been drawn down as of December 31, 2019 (\$1,183,720) but which are anticipated to be drawn down, are included in the federal expenditures presented in the Schedule.

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Rooks County Health Center
Plainville, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*, the financial statements of Rooks County Health Center (Health Center), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements, and have issued our report thereon dated June 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Rooks County Health Center
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
June 3, 2020

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Rooks County Health Center
Plainville, Kansas

Report on Compliance for the Major Federal Program

We have audited Rooks County Health Center's (Health Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Health Center's major federal program for the year ended December 31, 2019. The Health Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Health Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on the compliance for the major federal program. However, our audit does not provide a legal determination of the Health Center's compliance.

Board of Directors
Rooks County Health Center
(Continued)

Opinion on the Major Federal Program

In our opinion, Rooks County Health Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Rooks County Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
June 3, 2020

Rooks County Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

Rooks County Health Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2019

7. The Health Centers' major program was:

Cluster/Program	CFDA Number
Community Facilities Loans and Grants Cluster	10.766

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Health Center qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Rooks County Health Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
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No matters are reportable.