

EDWARDS COUNTY HOSPITAL,
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Financial Statements

Years Ended December 31, 2019 and 2018

(Together With Independent Auditor's Report)

EDWARDS COUNTY HOSPITAL,
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Index

Years Ended December 31, 2019 and 2018

	<u>Page Number</u>
Independent Auditor's Report	1-3
Statements of Financial Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-32
Supplementary Data:	
Schedule 1 – Schedule of the Hospital's Proportionate Share of the Net Position Liability (Unaudited)	33
Schedule 2 – Schedule of the Hospital's Contributions (Unaudited)	34
Schedule 3 – Schedule of the Changes in the Total OPEB Liability and Related Ratios (Unaudited)	35

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Edwards County Hospital, d/b/a Edwards County Medical Center
Kinsley, Kansas:

Report on the Financial Statements

We have audited the accompanying statement of financial position of Edwards County Hospital, d/b/a Edwards County Medical Center, a component unit of Edwards County, Kansas, as of December 31, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements which collectively comprise Edwards County Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of 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 of 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 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Continued)

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 Edwards County Hospital, d/b/a Edwards County Medical Center as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Component Unit Reporting

As discussed in note 1, the financial statements present only the financial information of Edwards County Hospital and do not purport to, and do not, present fairly the financial position of Edwards County as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information on pages 32 through 34 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 audit 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.

Edwards County Hospital has omitted its management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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.

(Continued)

Prior Year Financial Statements

The financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center, as of December 31, 2018, before the following discussed restatement, were audited by other auditors whose report dated May 1, 2019 expressed an unmodified opinion on those statements.

As part of our audit of the 2019 financial statements, we also audited the adjustment described in note 12 that was applied to restate the 2018 financial statements. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of Edwards County Medical Center other than with respect to the adjustment, and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
October 5, 2020

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Financial Position

December 31, 2019 and 2018

<u>Assets and Deferred Outflows of Resources</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 331,320	427,999
Receivables:		
Patient, net of estimated uncollectibles of \$355,000 in 2019 and \$351,000 in 2018	1,055,156	1,285,670
Estimated third-party payor settlements	710,000	197,480
Noncapital appropriations - Edwards County	275,000	275,000
Other	149,948	181,568
Supplies	231,540	198,295
Prepaid expenses and other	49,054	72,338
Total current assets	<u>2,802,018</u>	<u>2,638,350</u>
Noncurrent cash equivalents, internally designated for capital improvements	<u>458,015</u>	<u>416,823</u>
Capital assets:		
Capital assets	9,032,208	8,844,512
Less accumulated depreciation	<u>7,424,209</u>	<u>7,218,892</u>
Net capital assets	<u>1,607,999</u>	<u>1,625,620</u>
Total assets	<u>4,868,032</u>	<u>4,680,793</u>
Deferred outflows of resources:		
Pension	834,510	697,678
OPEB	<u>45,339</u>	<u>20,538</u>
Total deferred outflows of resources	<u>879,849</u>	<u>718,216</u>
	<u>\$ 5,747,881</u>	<u>5,399,009</u>

See accompanying notes to financial statements.

<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current maturities of long-term debt	\$ 96,442	76,475
Current maturities of ZPIC and CMS extended repayment settlements	90,524	88,800
Accounts payable	138,487	309,402
Accrued expenses	<u>560,370</u>	<u>538,570</u>
Total current liabilities	885,823	1,013,247
ZPIC and CMS extended repayment settlements, less current maturities	339,835	431,118
Long-term debt, less current maturities	122,819	113,855
Net pension liability	3,214,767	2,925,844
Total OPEB liability	<u>300,088</u>	<u>285,407</u>
Total liabilities	<u>4,863,332</u>	<u>4,769,471</u>
Deferred inflows of resources:		
Pension	97,088	136,042
OPEB	75,446	85,467
Noncapital appropriations - Edwards County	<u>275,000</u>	<u>275,000</u>
Total deferred inflows of resources	<u>447,534</u>	<u>496,509</u>
Net position:		
Net investment in capital assets	1,388,738	1,435,290
Unrestricted	<u>(951,723)</u>	<u>(1,302,261)</u>
Total net position	<u>437,015</u>	<u>133,029</u>
	<u>\$ 5,747,881</u>	<u>5,399,009</u>

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards 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	\$ 9,985,135	8,804,299
Provision for bad debts	<u>(470,103)</u>	<u>(335,064)</u>
Net patient service revenue, less provision for bad debts	9,515,032	8,469,235
Other revenue	<u>591,619</u>	<u>625,909</u>
Total operating revenues	<u>10,106,651</u>	<u>9,095,144</u>
Operating expenses:		
Salaries and wages	4,973,172	4,603,138
Employee benefits	1,316,895	1,053,709
Purchased services and professional fees	1,899,468	2,361,265
Supplies and other	1,924,331	1,867,479
Depreciation and amortization	<u>205,317</u>	<u>205,512</u>
Total operating expenses	<u>10,319,183</u>	<u>10,091,103</u>
Operating loss	<u>(212,532)</u>	<u>(995,959)</u>
Nonoperating revenues (expenses):		
Noncapital appropriations - Edwards County	518,696	510,000
Interest from deposit accounts and other receivables	7,619	21,205
Interest for ZPIC and CMS extended repayment settlements, net	(58,083)	(26,884)
Noncapital grants and contributions	33,786	78,165
Gain on the disposal of capital assets	<u>-</u>	<u>2,000</u>
Total nonoperating revenues	<u>502,018</u>	<u>584,486</u>
Excess of revenues over expenses (expenses over revenues)	289,486	(411,473)
Capital grants and contributions	<u>14,500</u>	<u>-</u>
Increase (decrease) in net position	303,986	(411,473)
Net position, beginning of year	<u>133,029</u>	<u>544,502</u>
Net position, end of year	<u>\$ 437,015</u>	<u>133,029</u>

See accompanying notes to financial statements.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

<u>Change in Cash and Cash Equivalents</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from or on behalf of patients	\$ 9,175,087	8,637,247
Payments to suppliers and contractors	(4,004,675)	(4,446,769)
Payments to and on behalf of employees	(6,175,271)	(5,694,444)
Other receipts and payments, net	<u>591,619</u>	<u>625,909</u>
Net cash used by operating activities	<u>(413,240)</u>	<u>(878,057)</u>
Cash flows from noncapital financing activities:		
Noncapital appropriations - Edwards County	518,696	510,000
Noncapital grants and contributions	33,786	39,422
Interest paid on financed ZPIC and CMS extended repayment settlements, net	<u>(49,162)</u>	<u>(18,226)</u>
Net cash provided by noncapital financing activities	<u>503,320</u>	<u>531,196</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	-	2,000
Purchase of capital assets	(73,496)	(118,839)
Principal payments on long-term debt	(85,269)	(73,752)
Interest paid on long-term debt	(8,921)	(8,658)
Capital grants and contributions	<u>14,500</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(153,186)</u>	<u>(199,249)</u>
Cash flows from investing activities, interest received	<u>7,619</u>	<u>21,205</u>
Net decrease in cash and cash equivalents	(55,487)	(524,905)
Cash and cash equivalents, beginning of year	<u>844,822</u>	<u>1,369,727</u>
Cash and cash equivalents, end of year	<u>\$ 789,335</u>	<u>844,822</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 331,320	427,999
Cash and cash equivalents in noncurrent cash and investments	<u>458,015</u>	<u>416,823</u>
	<u>\$ 789,335</u>	<u>844,822</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Statements of Cash Flows
(Continued)
Years Ended December 31, 2019 and 2018

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2019</u>	<u>2018</u>
Operating loss	\$ (212,532)	(995,959)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	205,317	205,512
Provision for bad debts	470,103	335,064
Decrease (increase) in:		
Patient accounts receivable	(239,589)	156,860
Estimated third-party payor settlements	(512,520)	(197,480)
Other receivables	31,620	79,469
Inventories	(33,245)	(6,792)
Prepaid expenses	23,284	(49,663)
Deferred outflows of resources	(161,633)	(219,397)
Increase (decrease) in:		
ZPIC and CMS extended repayment settlements	(89,559)	433,250
Accounts payable - trade	(170,915)	(161,570)
Accrued expenses other	21,800	40,530
Estimated third-party payor settlements	-	(639,151)
Deferred inflows of resources - pension and OPEB	(48,975)	21,800
Net pension liability	288,923	211,351
Total OPEB liability	14,681	(91,881)
Net cash used by operating activities	<u>\$ (413,240)</u>	<u>(878,057)</u>

Supplemental Disclosure of Cash Flows Information

	<u>2019</u>	<u>2018</u>
Equipment financed through capital lease arrangement	<u>\$ 114,200</u>	<u>13,691</u>

See accompanying notes to financial statements.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

December 31, 2019 and 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center (the Hospital), a component unit of Edwards County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting entity

The Hospital is an acute care hospital located in Kinsley, Kansas. The Hospital is a component unit of Edwards County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care to patients in the County area. The Hospital ceased providing geriatric psychiatric services during fiscal year 2019.

The financial statements of the Hospital reporting entity are intended to present the financial position, changes in financial position and cash flows of the Hospital. They do not purport to, and do not, present fairly the financial position, changes in financial position or cash flows of the County as of and for the years ended December 31, 2019 and 2018.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Tax exempt status

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. The Hospital has also obtained 501(c)(3) status with the Internal Revenue Service.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Measurement focus and basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of presentation

The statement of financial position displays the Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

The Hospital had no restricted net position at December 31, 2019 and 2018.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows and inflows of resources, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated cash and investments. For purposes of the statements of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collection procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Noncapital appropriations receivable and revenue

Noncapital appropriations received from the County consist of property taxes and specific budgeted operating appropriations. Annually, the Hospital submits budgets to the County for approval of both amounts for the next fiscal year. The budgets are approved by the Edwards County Board of Commissioners, generally in August, and utilized to establish the property tax levies. A specific levy in connection with the property taxes is assigned to the Hospital.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

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. Property owners have the option of paying on half or the full balance 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. The County Treasurer is the tax collection agent for all taxing entities within the County, including the Hospital. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1 of the ensuing year.

As such taxes are a lien on properties during the current year, but not received by the Hospital until the ensuing year, such noncapital appropriations are recorded as a receivable as of December 31. For revenue recognition purposes, taxes levied during the current year are not available to the Hospital until the ensuing year due to state statute and, as such, are recognized as a deferred inflow of resources.

The operating appropriations received from the County are accounted for as a budgeted line item within the County's financial statements. State statutes allow transferring budgeted amounts within the line items within an individual fund, therefore there are no restrictions on the County for distributing these funds to the Hospital. Accordingly, amounts are recognized as revenue upon approval of the Hospital's submitted budget by the County.

Supplies

Supply inventories are stated at the lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent cash equivalents

Noncurrent cash equivalents are set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets that are available for obligations classified as current liabilities are reported in current assets.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Capital assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

	<u>Life in Years</u>
Land improvements	10-20
Buildings	15-40
Fixed equipment	5-20
Moveable equipment	<u>3-20</u>

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Hospital has deferred outflows of resources related to pension and total other postemployment benefits (OPEB) liabilities. Deferred outflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, other differences between expected and actual experience, and contributions from the employer after the measurement date but before the end of the Hospital's reporting period. The Hospital's deferred outflows of resources are recognized as a component of compensation expense in the following year related to employer contributions, compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the related pension or OPEB plan.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Compensated absences

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. Sick leave benefits are realized as paid time off and 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 absences liabilities are computed using the regular pay and termination pay rates in effect at the statement of financial position date plus an additional amount for compensated-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The liability for compensated absences is reported within accrued expenses in the accompanying financial statements.

Cost-sharing defined benefit pension plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, pension expense, and information about the fiduciary net position of KPERS and additions to/deductions from KPERS's fiduciary net positions have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred inflows of resources

Deferred inflows of resources represent an increase in net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. The Hospital has deferred inflows of resources related to pension and OPEB liabilities. The deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience, all associated with the Hospital's participation in the related KPERS pension or OPEB plans. In addition, deferred inflows of resources include noncapital appropriations from the County related to the ensuing year's budget and grants received that relate to a future period. The Hospital's deferred inflows of resources related to pensions are recognized as a component of compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the related plans. Noncapital appropriations are recognized as inflows of resources in the period the amounts become available and grants are recognized as revenue when earned.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Operating revenues and expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include reimbursed costs, prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient services revenue for the year ended December 31, 2018 decreased approximately \$498,000 due to final third-party payor settlements in excess of estimated amounts (note 2).

Charity care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$40,000 and \$25,000 for the years ended December 31, 2019 and 2018, respectively, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

(2) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Hospital is designated as a Critical Access Hospital (CAH). As a CAH, inpatient acute, inpatient nonacute (swing-bed), and outpatient services provided to Medicare beneficiaries are paid based on a cost reimbursement methodology (plus an additional 1% of cost). For these services, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as inpatient geriatric psychiatry services, and certain laboratory and diagnostic services, that are reimbursed under prospectively determined per diem rates or fee schedules. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2017.

The "Budget Control Act of 2011" requires, among other things, mandatory across the board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments.

- **Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid 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.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other 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.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's net patient service revenues for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Medicare	62%	67%
State-sponsored Medicaid program	5	4
Commercial insurance	31	27
Uninsured	<u>2</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

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

ZPIC settlement

The Hospital is involved in an investigation regarding specific third-party payor program billing issues associated with the geriatric psychiatry unit. The investigation was conducted through the Medicare Zone Program Integrity Contractor (ZPIC) program. Ultimately, it was determined that the Hospital was subject to a repayment to Medicare based on this investigation. During 2015, the Hospital negotiated long-term payment terms with Medicare to repay this amount over a 60-month term (note 6). The Hospital has made additional payments throughout the term and paid the note in full during 2018. The Hospital is contesting certain ZPIC repayments, but recorded and repaid the full value of repayments identified. Ultimately, events could occur that would cause the estimate of ultimate losses to differ materially in the near term.

Related to the ZPIC investigation and liability to Medicare, the Hospital had an agreement with a third-party vendor under which the vendor would reimburse the Hospital 50% of the amounts recovered by Medicare. The Hospital had a receivable at December 31, 2018 of \$95,288 related to this matter, which was included in other receivables on the statements of financial position. The amount was fully received during 2019. The receivable earned interest at 10.125%, which was recorded as interest income and included as a nonoperating activity.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

CMS extended repayment settlement

During 2018, the Hospital entered into an extended repayment agreement with Centers for Medicare and Medicaid Services (CMS) as the result of the final settlement of the cost report for the year ended December 31, 2016 totaling \$536,373. The Hospital negotiated long-term payment terms with CMS to repay this amount in monthly installments of \$11,560 over a 60-month term, which includes interest at 10.25% (note 6).

(3) Deposits

The carrying amounts of the Hospital's deposits as of December 31, 2019 and 2018 were \$789,335 and \$844,822, respectively.

Deposits are reported in the following statements of financial position captions:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 331,320	427,999
Noncurrent cash equivalents – internally designated	<u>458,015</u>	<u>416,823</u>
	<u>\$ 789,335</u>	<u>844,822</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state laws. 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 amounts of the deposits. The Hospital's deposits in banks at December 31, 2019 and 2018 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

(4) Capital Assets

Capital assets additions, transfers/retirements, and balances for the years ended December 31, 2019 and 2018 are as follows:

	<u>2018</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2019</u>
<u>Historical costs</u>				
Land – not depreciated	\$ 47,391	8,271	-	55,662
Construction in progress – not depreciated	4,583	27,502	-	32,085
Land improvements	122,166	-	-	122,166
Buildings	4,144,158	18,441	-	4,162,599
Fixed equipment	2,142,470	-	-	2,142,470
Moveable equipment	<u>2,383,744</u>	<u>133,482</u>	<u>-</u>	<u>2,517,226</u>
Total historical costs	<u>8,844,512</u>	<u>187,696</u>	<u>-</u>	<u>9,032,208</u>
<u>Less accumulated depreciation</u>				
Land improvements	(122,166)	-	-	(122,166)
Buildings	(3,261,144)	(47,582)	-	(3,308,726)
Fixed equipment	(1,764,477)	(61,891)	-	(1,826,368)
Moveable equipment	<u>(2,071,105)</u>	<u>(95,844)</u>	<u>-</u>	<u>(2,166,949)</u>
Total accumulated depreciation	<u>(7,218,892)</u>	<u>(205,317)</u>	<u>-</u>	<u>(7,424,209)</u>
Net capital assets	<u>\$ 1,625,620</u>	<u>(17,621)</u>	<u>-</u>	<u>1,607,999</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land – not depreciated	\$ 47,391	-	-	47,391
Construction in progress – not depreciated	-	4,583	-	4,583
Land improvements	122,166	-	-	122,166
Buildings	4,144,158	-	-	4,144,158
Fixed equipment	2,109,285	33,185	-	2,142,470
Moveable equipment	<u>2,400,995</u>	<u>94,762</u>	<u>(112,013)</u>	<u>2,383,744</u>
Total historical costs	<u>8,823,995</u>	<u>132,530</u>	<u>(112,013)</u>	<u>8,844,512</u>
<u>Less accumulated depreciation</u>				
Land improvements	(122,166)	-	-	(122,166)
Buildings	(3,212,299)	(48,845)	-	(3,261,144)
Fixed equipment	(1,696,060)	(68,417)	-	(1,764,477)
Moveable equipment	<u>(2,094,868)</u>	<u>(88,250)</u>	<u>112,013</u>	<u>(2,071,105)</u>
Total accumulated depreciation	<u>(7,125,393)</u>	<u>(205,512)</u>	<u>112,013</u>	<u>(7,218,892)</u>
Net capital assets	<u>\$ 1,698,602</u>	<u>(72,982)</u>	<u>-</u>	<u>1,625,620</u>

(5) Leases

The Hospital leases certain equipment under non-cancelable long-term agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2019 and 2018 for all operating leases was \$127,943 and \$152,538, respectively. The capitalized lease assets consist of:

	<u>2019</u>	<u>2018</u>
Major movable equipment	\$ 457,720	339,765
Less accumulated amortization	<u>(167,704)</u>	<u>(110,195)</u>
	<u>\$ 290,016</u>	<u>229,570</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Minimum future lease payments for capital leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 106,380
2021	68,244
2022	27,787
2023	27,787
2024	<u>11,577</u>
Total minimum lease payments	241,775
Less interest imputed at rates from 2.67% to 5.89%	<u>(22,514)</u>
Present value of minimum lease payments – note 6	\$ <u>219,261</u>

(6) Long-Term Liabilities

A schedule of the Hospital's long-term liabilities for 2019 and 2018 is as follows:

	Balance December 31, <u>2018</u>	Additions/ <u>Adjustments</u>	Payments/ <u>Adjustments</u>	Balance December 31, <u>2019</u>	Due Within <u>One Year</u>
Long-term debt, capital leases – note 5	\$ 190,330	114,200	(85,269)	219,261	96,442
Other noncurrent liabilities:					
CMS extended repayment settlement – note 2	519,918	-	(89,559)	430,359	90,524
Net pension liability – note 7	2,925,844	288,923	-	3,214,767	-
Total OPEB liability – note 8	<u>285,407</u>	<u>14,681</u>	<u>-</u>	<u>300,088</u>	<u>-</u>
Total long-term liabilities	\$ <u>3,921,499</u>	<u>417,804</u>	<u>(174,828)</u>	<u>4,164,475</u>	<u>186,966</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

	Balance December 31, <u>2017</u>	Additions/ <u>Adjustments</u>	Payments/ <u>Adjustments</u>	Balance December 31, <u>2018</u>	Due Within <u>One Year</u>
Long-term debt, capital leases – note 5	\$ 250,391	13,691	(73,752)	190,330	76,475
Other noncurrent liabilities:					
ZPIC settlement – note 2	86,668	-	(86,668)	-	-
CMS extended repayment settlement – note 2	-	536,373	(16,455)	519,918	88,800
Net pension liability – note 7	2,714,493	211,351	-	2,925,844	-
Total OPEB liability – note 8	<u>377,288</u>	<u>-</u>	<u>(91,881)</u>	<u>285,407</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,428,840</u>	<u>761,415</u>	<u>(268,756)</u>	<u>3,921,499</u>	<u>165,275</u>

(7) Pension Plan

Plan description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement Systems (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

- State/School
- Local
- Police and Fireman
- Judges

The Hospital's employees participate in the Local group.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Benefits provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62 and 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries (note 8).

The terms of the plan provide for an annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014 for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2019 and 2018 was 9.89% (8.89% and the 1% for death and dismemberment) and 9.39% (8.39% and the 1% for death and dismemberment), respectively, of annual payroll. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

The Hospital's contributions to KPERS for the pension plan for the years ended December 31, 2019 and 2018 were \$395,481 and \$335,165, respectively.

Net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources related to pension plan

At December 31, 2019 and 2018, the Hospital reported a liability of \$3,214,767 and \$2,925,844, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, rolled forward to June 30, 2019 and 2018. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2019, the Hospital's proportion was 0.230058%, which was an increase of 0.020138% from its proportion measured as of June 30, 2018, of 0.209920%. At June 30, 2017, the proportion was 0.187406%.

For the years ended December 31, 2019, 2018, and 2017, the Hospital recognized pension expense of \$508,618, \$291,747, and \$250,015, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	<u>2019</u>		<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,037	80,961	10,564	82,905
Net difference between projected and actual earnings on pension plan investments	75,633	-	68,445	-
Changes in assumptions	98,255	6,516	126,701	14,090
Changes in proportion	453,132	9,611	319,654	39,047
Hospital's contributions subsequent to the measurement date	<u>200,453</u>	<u>-</u>	<u>172,314</u>	<u>-</u>
	<u>\$ 834,510</u>	<u>97,088</u>	<u>697,678</u>	<u>136,042</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

At December 31, 2019, the Hospital reported \$200,453 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019 will be recognized in pension expense as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 209,964
2021	100,492
2022	134,721
2023	87,176
2024	<u>4,616</u>
Total	<u>\$ 536,969</u>

Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions applied to all periods included in the measurement:

Price inflation	2.75%
Salary increases	3.5% to 12.00%, including price inflation productivity
Investment rate of return	7.75%, net of pension plan investment expenses, including price inflation

The December 31, 2018 and 2017 actuarial valuations used mortality rates based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016. Different adjustments apply to pre-retirement versus post-retirement versus post-disability mortality tables.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study for the three-year period ended January 1, 2013 through December 31, 2015.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using the building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>2019</u>		<u>2018</u>	
	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	6.9%	47%	6.8%
Fixed income	13	1.3	13	1.3
Yield driven	8	6.6	8	6.6
Real return	11	1.7	11	1.7
Real estate	11	5.1	11	5.1
Alternatives	8	9.9	8	9.9
Short-term investments	<u>2</u>	(.3)	<u>2</u>	(.3)
	<u>100%</u>		<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the years ended December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employee contribution rates certified by the KPERS Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plans fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75% at December 31, 2018 and 2017. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (<u>6.75%</u>)	Current Discount (<u>7.75%</u>)	1% Increase (<u>8.75%</u>)
Hospital's proportionate share of the net pension liability at December 31, 2019	\$ <u>4,801,321</u>	<u>3,214,767</u>	<u>1,887,643</u>
Hospital's proportionate share of the net pension liability at December 31, 2018	\$ <u>4,291,177</u>	<u>2,925,844</u>	<u>1,772,014</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

(8) Other Postemployment Benefits (OPEB)

Plan description

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a board of trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS' governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Benefits

The OPEB Plan provides long-term disability (LTD) and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever occurs first. Upon the death of a member who is receiving monthly disability benefits, the OPEB Plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

Total OPEB liability

At December 31, 2019 and 2018, the Hospital reported a liability of \$300,088 and \$285,407, respectively, related to its total OPEB liability. The total OPEB liability was measured as of June 30, 2019 and 2018, using actuarial valuations as of December 31, 2018 and 2017, rolled forward to June 30, 2019 and 2018. The following schedule shows the changes in the Hospital's total OPEB liability for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total OPEB liability, beginning of year	\$ <u>285,407</u>	<u>377,288</u>
Service cost	14,484	14,258
Interest	10,914	13,344
Differences between expected and actual experience	19,505	(76,759)
Changes in assumptions or other inputs	5,897	(4,790)
Benefit payments	<u>(36,119)</u>	<u>(37,934)</u>
Net change	<u>14,681</u>	<u>(91,881)</u>
Total OPEB liability, end of year	\$ <u>300,088</u>	<u>285,407</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

There are 69 active members and 4 disabled members in the plan at the June 30, 2019 measurement date and 64 active members and 4 disabled members in the plan at the June 30, 2018 measurement date. For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$20,141, and \$8,946, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>		<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,500	60,917	-	68,838
Changes in assumptions or other inputs	5,291	14,529	-	16,629
Hospital's contributions subsequent to the measurement date	<u>22,548</u>	<u>-</u>	<u>20,538</u>	<u>-</u>
	<u>\$ 45,339</u>	<u>75,446</u>	<u>20,538</u>	<u>85,467</u>

The deferred outflows of resources related to the contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019 will be recognized in OPEB expense over the average expected remaining services life of the plan, which is approximately 7 years at June 30, 2019. The recognition will be as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 7,410
2021	7,410
2022	7,410
2023	7,410
2024	7,410
Thereafter	<u>15,605</u>
	<u>\$ 52,655</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions:

- Inflation – 2.75%
- Salary increases – 3.5% to 10.00%, including inflation and productivity
- Discount rate – 3.50% and 3.87% as of June 30, 2019 and 2018, based on the Bond Buyer General Obligation 20-Bond Municipal Index
- Mortality – RP-2014 Total Dataset Mortality table full generational using scale MP-2019
- Experience study – Completed for the period January 1, 2013 – December 31, 2015

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rates as of June 30, 2019 and 2018:

	1% Decrease (<u>2.50%</u>)	Discount Rate (<u>3.50%</u>)	1% Increase (<u>4.50%</u>)
Total OPEB liability at December 31, 2019	\$ <u>316,609</u>	<u>300,088</u>	<u>284,425</u>
	1% Decrease (<u>2.87%</u>)	Discount Rate (<u>3.87%</u>)	1% Increase (<u>4.87%</u>)
Total OPEB liability at December 31, 2018	\$ <u>302,295</u>	<u>285,407</u>	<u>269,598</u>

(9) Designated Net Position

At December 31, 2019 and 2018, \$458,015 and \$416,823, respectively, of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes. Designated net position is reported as noncurrent cash equivalents, internally designated for capital improvements.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

(10) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Medicare	29%	48%
State-sponsored Medicaid program	9	5
Commercial insurances	32	25
Patients	<u>30</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

The Hospital received approximately 4.9% and 5.3% of its financial support from noncapital appropriations from Edwards County in 2019 and 2018, respectively.

(11) Contingencies

Risk management

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

Malpractice insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$200,000 per claim and an aggregate limit of \$600,000. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage per claim and an additional \$2,400,000 of aggregate coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be insured.

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

Litigation, claims and disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

(12) Restatement of 2018 Financial Statements

It was determined during the 2019 audit the cumulative amount of depreciation expense charged during previous years was incorrect resulting in accumulated depreciation reported as of December 31, 2018 being misstated. The restatement to correct this error had the following effect on the previously reported 2018 financial statements.

Accumulated depreciation prior to restatement	\$ 7,285,812
Restatement applied	<u>(66,920)</u>
Restated accumulated depreciation	\$ <u>7,218,892</u>
Net position prior to restatement	\$ 66,109
Restatement applied	<u>66,920</u>
Restated net position	\$ <u>133,029</u>

(Continued)

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Notes to Financial Statements

(13) Subsequent Event - Coronavirus Pandemic

In December 2019, a novel strain of the coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the United States of America (U.S.). On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The majority of the U.S. has since declared a state of emergency resulting in various restrictions on how the general public and business sectors operate on a daily basis. The Hospital is currently operating within the guidelines provided by both State and Federal regulatory agencies. These restrictions have resulted in a decrease in both hospital and physician elective services provided year-to-date for calendar year 2020. It is currently unknown how long these impacts will continue. The U.S. Congress has passed both the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act which provide various relief programs and direct funds to both healthcare providers, such as the Hospital, and the general public to assist during the duration of the pandemic. The Hospital has received funds under these legislative acts. Currently, the U.S. Congress is considering additional legislative acts to provide more assistance to the general public and various business sectors. The extent of the final impact of the COVID-19 pandemic on the Hospital's operational and financial performance will depend on various developments, including duration and spread of COVID-19, the Hospital's ability to provide healthcare services to the general public, the impact on the local community and economy and on the Hospital's supply vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Hospital's financial condition or results of operations is uncertain.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Hospital's Proportionate Share of the Net Pension Liability (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 7)

	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Hospital's proportion of the net pension liability	<u>0.230058%</u>	<u>0.209920</u>	<u>0.187406</u>	<u>0.184597</u>	<u>0.177877</u>	<u>0.182953</u>
Hospital's proportionate share of the net pension liability	<u>\$ 3,214,767</u>	<u>2,925,844</u>	<u>2,714,493</u>	<u>2,855,770</u>	<u>2,335,603</u>	<u>2,251,809</u>
Hospital's covered employee payroll	<u>\$ 4,225,997</u>	<u>3,731,387</u>	<u>3,324,731</u>	<u>3,169,466</u>	<u>2,978,242</u>	<u>3,018,272</u>
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>76.07%</u>	<u>78.41</u>	<u>81.65</u>	<u>90.10</u>	<u>78.42</u>	<u>74.61</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69.88%</u>	<u>68.88</u>	<u>67.12</u>	<u>65.10</u>	<u>64.95</u>	<u>66.60</u>

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).

Note to the Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Hospital's Contributions (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 7)

	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Contractually required contribution	\$ 395,481	335,165	294,107	304,374	280,706	266,944
Contribution in relation to the contractually required contribution	<u>395,481</u>	<u>335,165</u>	<u>294,107</u>	<u>304,113</u>	<u>280,706</u>	<u>266,944</u>
Contribution deficiency	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>261</u>	<u>-</u>	<u>-</u>
Hospital's covered employee payroll	\$ <u>4,448,610</u>	<u>3,991,815</u>	<u>3,592,861</u>	<u>3,315,621</u>	<u>2,968,257</u>	<u>3,020,983</u>
Contributions as a percentage of covered employee payroll	<u>8.89%</u>	<u>8.39</u>	<u>8.46</u>	<u>9.17</u>	<u>9.46</u>	<u>8.84</u>

*The amounts presented for each fiscal year are as of the most recent fiscal year-end (December 31).

Note to the Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

EDWARDS COUNTY HOSPITAL
D/B/A EDWARDS COUNTY MEDICAL CENTER
A Component Unit of Edwards County, Kansas

Schedule of the Changes in the Total OPEB Liability and Related Ratios (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (See note 8)

	<u>2019*</u>	<u>2018*</u>	<u>2017*</u>
Service cost	\$ 14,484	14,258	13,336
Interest	10,914	13,344	11,649
Effect of economic/demographic gains or losses	19,505	(76,759)	-
Changes in assumptions or other inputs**	5,897	(4,790)	(15,545)
Benefit payments	<u>(36,119)</u>	<u>(37,934)</u>	<u>(54,705)</u>
Net change in total OPEB liability	14,681	(91,881)	(45,265)
Total OPEB liability - beginning of year	<u>285,407</u>	<u>377,288</u>	<u>422,553</u>
Total OPEB liability - end of year	\$ <u>300,088</u>	<u>285,407</u>	<u>377,288</u>
Hospital's covered employee payroll	\$ <u>4,274,531</u>	<u>3,584,813</u>	<u>3,139,132</u>
Total OPEB liability as a percentage of covered employee payroll	<u>7.02%</u>	<u>7.96</u>	<u>12.02</u>
Discount rate	<u>3.50%</u>	<u>3.87</u>	<u>3.58</u>

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).

**The discount rate changed from 3.87% to 3.50%.

Notes to the Schedule

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.