

**Independent Auditor's Report and Financial Statements**  
**Labette County Medical Center**  
**d/b/a Labette Health**  
**December 31, 2019 and 2018**

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**Labette County Medical Center  
d/b/a Labette Health  
Management's Discussion and Analysis  
Years ended December 31, 2019 and 2018**

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2019 and 2018. Please read it in conjunction with the accompanying financial statements.

Financial highlights

Labette Health's net position increased by \$2,855,645 or 7.1 percent in 2019 and increased by \$4,900,775 or 13.9 percent in 2018.

Labette Health reported an operating income of \$1,553,442, \$2,820,853, and \$722,643 in 2019, 2018, and 2017, respectively.

Using these financial statements

Labette Health's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

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

These two statements report Labette Health's net position and changes in it. Labette Health's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in Labette Health's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in Labette Health's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of Labette Health.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

**Labette County Medical Center  
d/b/a Labette Health  
Management's Discussion and Analysis - Continued  
Years ended December 31, 2019 and 2018**

Assets, liabilities, and net position

Labette Health's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Current assets	\$ 27,571,231	\$ 31,811,400	\$ 24,975,213
Assets limited as to use	19,855,496	11,133,505	10,938,054
Capital assets, net	26,568,074	27,157,727	29,464,537
Other assets	<u>756,521</u>	<u>464,143</u>	<u>595,822</u>
<b>Total assets</b>	<u>74,751,322</u>	<u>70,566,775</u>	<u>65,973,626</u>
<b>Deferred outflows of resources on advance refunding</b>			
	<u>333,901</u>	<u>370,821</u>	<u>408,562</u>
<b>Liabilities</b>			
Current liabilities	(9,778,901)	(7,520,532)	(7,545,917)
Long-term liabilities	<u>(22,235,974)</u>	<u>(23,202,361)</u>	<u>(23,522,343)</u>
<b>Total liabilities</b>	<u>(32,014,875)</u>	<u>(30,722,893)</u>	<u>(31,068,260)</u>
<b>Net position</b>	<u>\$ 43,070,348</u>	<u>\$ 40,214,703</u>	<u>\$ 35,313,928</u>

Cash and cash equivalents in the current asset category decreased by \$3,707,527 in 2019 and increased by \$6,404,759 in 2018. The changes in both years are due to cash flows from operations and investing activities being more or less than the cash used by capital and related financing activities. In 2019, Labette Health designated \$8,000,000 of cash from operations to be used for future capital asset acquisitions.

Net patient accounts receivable decreased by \$586,198 in 2019 and increased by \$90,305 in 2018. The number of days of net revenue represented by net accounts receivable was 45 days, 50 days, and 56 days as of December 31, 2019, 2018, and 2017, respectively. The median value of similar hospitals for this ratio is 67 days.

Net capital assets decreased by \$589,653 in 2019 and decreased by \$2,306,810 in 2018. Cash outlays for capital asset acquisitions totaled \$4,163,191 during 2019, of which \$1,408,058 (33.8 percent) was financed with note payable and capital lease obligations and the rest was paid for from operating cash flow. Cash outlays for capital asset acquisitions totaled \$2,683,667 during 2018, of which \$1,060,417 (39.5 percent) was financed with note payable and capital lease obligations and was paid for from operating cash flow.

Labette Health issued \$15,000,000 and \$9,021,000 in bonds during January 2017 and December 2016 respectively, for the advance refunding of the 2007 bond issue.

Labette Health's net position increased by \$2,855,645 or 7.1 percent in 2019 and increased by \$4,900,775 or 13.9 percent in 2018. The percentage of total assets financed with net position, or equity, was 57.4 percent, 56.7 percent, and 53.2 percent as of December 31, 2019, 2018, and 2017, respectively.

**Labette County Medical Center  
d/b/a Labette Health  
Management's Discussion and Analysis - Continued  
Years ended December 31, 2019 and 2018**

Operating results and changes in net position

Labette Health's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 79,632,294	\$ 75,251,660	\$ 66,546,740
Operating expenses	<u>78,078,852</u>	<u>72,430,807</u>	<u>65,824,097</u>
Operating income	1,553,442	2,820,853	722,643
Ambulance subsidy	352,923	292,492	273,605
Interest expense	(927,859)	(951,319)	(1,236,215)
Other nonoperating revenues	744,406	2,007,273	199,624
Capital grants, contributions, and sales tax revenue	<u>1,132,733</u>	<u>731,476</u>	<u>1,052,843</u>
Change in net position	<u>\$ 2,855,645</u>	<u>\$ 4,900,775</u>	<u>\$ 1,012,500</u>

The first, and most significant, component of the overall change in Labette Health's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health's operating income decreased by \$1,267,411 in 2019 and increased by \$2,098,210 in 2018.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Inpatient services	\$ 48,671,797	\$ 51,543,575	\$ 48,974,180
Outpatient services	148,231,925	133,323,937	113,342,401
Physician services	<u>27,227,731</u>	<u>24,514,427</u>	<u>20,127,048</u>
Gross patient service revenue	224,131,453	209,381,939	182,443,629
Contractual adjustments	(142,035,053)	(128,036,004)	(110,957,805)
Provision for bad debts	(10,294,399)	(11,214,552)	(9,653,476)
Charity care	<u>(1,917,642)</u>	<u>(2,871,888)</u>	<u>(1,808,981)</u>
Net patient service revenue	<u>\$ 69,884,359</u>	<u>\$ 67,259,495</u>	<u>\$ 60,023,367</u>

Labette Health did not increase charge rates during 2019 or 2018. Total inpatient revenues decreased by 5.6 percent during 2019. This decrease was a result of an 11.8 percent decrease in acute and ICU patient days and a 1.5 percent decrease in rehabilitation unit patient days, which was partially offset by a 1.4 percent increase in nursery patient days in 2019. Total inpatient revenues increased by 5.3 percent during 2018. This increase was a result of a 5.0 percent increase in acute and ICU patient days and a 1.7 percent increase in nursery patient days, which was partially offset by an 18.7 percent decrease in rehabilitation unit patient days.

**Labette County Medical Center  
d/b/a Labette Health  
Management's Discussion and Analysis - Continued  
Years ended December 31, 2019 and 2018**

Outpatient revenues increased by 11.2 percent during 2019 due to charge mix and a 7.9 percent increase in outpatient registrations. Outpatient revenues increased by 17.6 percent during 2018 because of a 9.6 percent increase in outpatient registrations. The change in physician services revenue is primarily due to changes in the number of physicians working for Labette Health.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors.

The provision for bad debts and charity care write-offs combined represent 5.4 percent, 6.7 percent, and 6.3 percent of gross patient service revenue during 2019, 2018, and 2017, respectively. These numbers are reflective of the current health care environment in which an increasing number of patients are uninsured or insured by plans requiring higher out-of-pocket expense covered by the insured.

Employee salaries and wages increased by \$3,020,753 or 9.3 percent during 2019 and increased by \$3,685,929 or 12.9 percent during 2018. The number of full-time equivalent employees increased by 43.64 (8.3 percent) during 2019 and increased by 49.47 (10.3 percent) during 2018.

The cost of employee benefits equaled 15.6 percent, 16.6 percent, and 19.1 percent of salaries and wages during 2019, 2018, and 2017, respectively. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased 8.8 percent during 2019 and increased by 10.8 percent during 2018. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service.

## Independent Auditor's Report

Board of Trustees  
Labette County Medical Center  
d/b/a Labette Health

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health, a component unit of Labette County, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Labette Health's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 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 financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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.

*Wendling Noe Nelson: Johnson LLC*

Topeka, Kansas  
June 23, 2020



## **Financial Statements**

**Labette County Medical Center  
d/b/a Labette Health  
Statements of Net Position  
December 31,**

**Assets and Deferred Outflows of Resources**

	2019		2018	
	Labette Health	Component units	Labette Health	Component units
<b>Current assets</b>				
Cash and cash equivalents	\$ 15,028,652	\$ 81,973	\$ 18,736,179	\$ 73
Investments		339,707		558,965
Assets limited as to use	153,002		112,605	
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,650,710 in 2019 and \$4,544,065 in 2018	8,684,395		9,270,593	
Other receivables	1,184,002	25,643	1,579,929	105,958
Estimated third-party payor settlements	304,233		184,522	
Inventories	1,671,078		1,476,135	
Prepaid expenses	545,869		451,437	874
	<b>27,571,231</b>	<b>447,323</b>	<b>31,811,400</b>	<b>665,870</b>
<b>Assets limited as to use</b>				
Internally designated for capital assets	18,301,332		10,042,823	
Under indenture agreement - held by trustee	154,988		113,143	
By County for capital assets	1,293,628		1,090,144	
By contributors for capital assets	258,550			
Under loan agreement		55,344		29,778
By contributors for specific operating activities		798,515		533,440
	20,008,498	853,859	11,246,110	563,218
Less amounts required to meet current obligations	153,002		112,605	
	19,855,496	853,859	11,133,505	563,218
<b>Capital assets, net</b>	<b>26,568,074</b>	<b>5,600,539</b>	<b>27,157,727</b>	<b>6,019,567</b>
<b>Other assets</b>				
Advances receivable	696,521		434,143	
Other	60,000	156,422	30,000	154,540
	756,521	156,422	464,143	154,540
<b>Total assets</b>	<b>74,751,322</b>	<b>7,058,143</b>	<b>70,566,775</b>	<b>7,403,195</b>
<b>Deferred outflows of resources</b>				
Deferred outflows on advance refunding	333,901		370,821	
<b>Total deferred outflows of resources</b>	<b>333,901</b>	<b>-</b>	<b>370,821</b>	<b>-</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 75,085,223</b>	<b>\$ 7,058,143</b>	<b>\$ 70,937,596</b>	<b>\$ 7,403,195</b>

The accompanying notes are an integral part of these statements.

## Liabilities and Net Position

	2019		2018	
	Lafayette Health	Component units	Lafayette Health	Component units
<b>Current liabilities</b>				
Current maturities of long-term obligations	\$ 1,992,729	\$ 115,797	\$ 1,059,840	\$ 113,406
Accounts payable	4,157,479		3,138,027	
Due to Lafayette Health		273,654		369,691
Accrued salaries, wages, and benefits	1,513,731		1,228,504	
Accrued compensated absences	1,295,946		1,202,162	
Accrued interest payable	69,611		71,709	
Accrued health insurance claims	189,883		233,729	
Estimated third-party payor settlements	232,452		257,375	
Other current liabilities	327,070		329,186	
	9,778,901	389,451	7,520,532	483,097
<b>Total current liabilities</b>				
	9,778,901	389,451	7,520,532	483,097
 <b>Long-term obligations, less current maturities</b>	 22,235,974	 5,641,984	 23,202,361	 5,757,781
<b>Total liabilities</b>	32,014,875	6,031,435	30,722,893	6,240,878
 <b>Net position</b>				
Net investment in capital assets	2,828,260	(403,831)	3,379,490	(148,254)
Restricted				
For debt service		55,344		29,778
Expendable for capital acquisitions	1,552,178		1,090,144	
Expendable for specific operating activities		798,515		533,440
Unrestricted	38,689,910	576,680	35,745,069	747,353
	43,070,348	1,026,708	40,214,703	1,162,317
<b>Total net position</b>				
	43,070,348	1,026,708	40,214,703	1,162,317
 <b>Total liabilities and net position</b>	\$ 75,085,223	\$ 7,058,143	\$ 70,937,596	\$ 7,403,195

**Labette County Medical Center  
d/b/a Labette Health  
Statements of Revenues, Expenses, and Changes in Net Position  
Year ended December 31,**

	2019		2018	
	Labette Health	Component units	Labette Health	Component units
<b>Operating revenues</b>				
Net patient service revenue	\$ 69,884,359	\$ -	\$ 67,259,495	\$ -
Other	9,747,935	1,432,004	7,992,165	917,679
<b>Total operating revenues</b>	79,632,294	1,432,004	75,251,660	917,679
<b>Operating expenses</b>				
Salaries and wages	35,364,721		32,343,968	
Employee benefits	5,500,582		5,373,945	
Supplies and other	32,581,664	1,103,448	29,936,305	711,892
Depreciation and amortization	4,631,885	419,028	4,776,589	416,955
<b>Total operating expenses</b>	78,078,852	1,522,476	72,430,807	1,128,847
<b>Operating income (loss)</b>	1,553,442	(90,472)	2,820,853	(211,168)
<b>Nonoperating revenues (expenses)</b>				
Ambulance subsidy	352,923		292,492	
Investment income	431,359	94,599	109,635	(19,910)
Interest expense	(927,859)	(141,618)	(951,319)	(140,949)
Noncapital grant and contributions	419,227		397,538	
Other	(106,180)	1,882	1,500,100	(4,925)
<b>Total nonoperating revenues (expenses)</b>	169,470	(45,137)	1,348,446	(165,784)
Excess of revenues over (under) expenses, before grants, contributions, and sales tax revenue restricted for capital purposes	1,722,912	(135,609)	4,169,299	(376,952)
Capital grants and contributions	809,491		361,126	
Sales tax revenue restricted for capital purchases	323,242		370,350	
<b>Change in net position</b>	2,855,645	(135,609)	4,900,775	(376,952)
<b>Net position at beginning of year</b>	40,214,703	1,162,317	35,313,928	1,539,269
	\$ 43,070,348	\$ 1,026,708	\$ 40,214,703	\$ 1,162,317

The accompanying notes are an integral part of these statements.

**Labette County Medical Center  
d/b/a Labette Health  
Statements of Cash Flows  
Year ended December 31,**

	2019		2018	
	<u>Labette Health</u>	<u>Component units</u>	<u>Labette Health</u>	<u>Component units</u>
<b>Cash flows from operating activities</b>				
Receipts from and on behalf of patients	\$ 70,325,923	\$ -	\$ 67,618,743	\$ -
Payments to or on behalf of employees	(40,560,138)		(37,554,029)	
Payments for supplies and services	(32,239,365)	(1,110,364)	(29,861,898)	(715,683)
Other receipts and payments	<u>9,671,737</u>	<u>1,468,533</u>	<u>8,118,711</u>	<u>920,710</u>
<b>Net cash provided by operating activities</b>	<u>7,198,157</u>	<u>358,169</u>	<u>8,321,527</u>	<u>205,027</u>
<b>Cash flows from noncapital financing activities</b>				
Ambulance subsidy	348,313		293,178	
Noncapital grants and contributions	394,186		392,962	
Other nonoperating receipts	<u>500,000</u>		<u>1,000,000</u>	
<b>Net cash provided by noncapital financing activities</b>	<u>1,242,499</u>	<u>-</u>	<u>1,686,140</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(4,163,191)	(88,247)	(2,683,667)	(34,506)
Capital lease obligations incurred	288,438		833,693	
Proceeds from note payable	1,119,620		226,724	
Repayments of long-term obligations	(1,441,556)	(113,406)	(1,588,492)	(114,075)
Interest paid	(893,037)	(141,618)	(914,861)	(140,949)
Capital grants and contributions	809,358		360,879	
Proceeds from sale of capital assets	140,179		100	
Sales tax revenue restricted for capital purchases	<u>323,242</u>		<u>370,350</u>	
<b>Net cash used by capital and related financing activities</b>	<u>(3,816,947)</u>	<u>(343,271)</u>	<u>(3,395,274)</u>	<u>(289,530)</u>
<b>Cash flows from investing activities</b>				
Changes in				
Assets held by trustee	(41,845)		(107,413)	
Assets restricted by contributors		141,542		(45,263)
Investments		251,517		92,560
Investment income received	<u>296,303</u>	<u>62,340</u>	<u>87,425</u>	<u>44,156</u>
<b>Net cash provided (used) by investing activities</b>	<u>254,458</u>	<u>455,399</u>	<u>(19,988)</u>	<u>91,453</u>
<b>Net change in cash and cash equivalents</b>	4,878,167	470,297	6,592,405	6,950
<b>Cash and cash equivalents at beginning of year</b>	<u>29,840,908</u>	<u>370,167</u>	<u>23,248,503</u>	<u>363,217</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 34,719,075</u>	<u>\$ 840,464</u>	<u>\$ 29,840,908</u>	<u>\$ 370,167</u>

**Labette County Medical Center  
d/b/a Labette Health  
Statements of Cash Flows - Continued  
Year ended December 31,**

	2019		2018	
	Labette Health	Component units	Labette Health	Component units
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	\$ 15,028,652	\$ 81,973	\$ 18,736,179	\$ 73
Cash included in assets limited as to use				
Internally designated for capital assets	18,138,245		10,014,585	
By County for capital assets	1,293,628		1,090,144	
By contributors for capital capital assets	258,550			
Under loan agreement		55,344		29,778
For specific operating activities		703,147		340,316
	<u>\$ 34,719,075</u>	<u>\$ 840,464</u>	<u>\$ 29,840,908</u>	<u>\$ 370,167</u>
<b>Total cash and cash equivalents</b>				
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 1,553,442	\$ (90,472)	\$ 2,820,853	\$ (211,168)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,631,885	419,028	4,776,589	416,955
Provision for bad debts	10,294,399		11,214,552	
Changes in				
Patient accounts receivable	(9,708,201)		(11,304,857)	
Other receivables	(76,198)		126,546	2,179
Pledges receivable		36,529		852
Advances receivable	(262,378)		131,679	
Estimated third-party payor settlements	(144,634)		449,553	
Inventories	(194,943)		96,633	
Prepaid expenses	(94,432)	874	(187,287)	(874)
Accounts payable and accrued expenses	1,199,217	(7,790)	197,266	(2,917)
	<u>\$ 7,198,157</u>	<u>\$ 358,169</u>	<u>\$ 8,321,527</u>	<u>\$ 205,027</u>
<b>Net cash provided by operating activities</b>				

The accompanying notes are an integral part of these statements.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements  
December 31, 2019 and 2018**

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

1. Reporting entity

Labette County Medical Center d/b/a Labette Health is owned by Labette County, Kansas (the County), and governed by a nine-member Board of Trustees appointed by the Board of County Commissioners of the County. Labette Health is a 99-bed, not-for-profit general hospital located in Parsons, Kansas. Labette Health can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. Labette Health is a component unit of the County.

The component units discussed in Note A2 are included in Labette Health's reporting entity because of the nature and significance of their relationships with Labette Health.

2. Component units

The financial statements include the financial data of the aggregate discretely presented component units described below. The component units are reported separately to emphasize that they are legally separate from Labette Health.

Labette Health Foundation, Inc. (the Foundation), is a not-for-profit corporation formed to receive, invest, and disburse funds received for the benefit, support, and maintenance of Labette Health. The Foundation is administered by a Board of Directors, of which four members are appointed by Labette Health's Board of Trustees.

Labette Health Regional Partnerships, Inc. (LHRP), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. LHRP is administered by a five-member Board of Directors of which three members are appointed by Labette Health's Board of Trustees.

Southeast Kansas Regional Health, Inc. (SEKRH), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Montgomery County, Neosho County, and Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. SEKRH is administered by a ten-member Board of Directors of which five members are appointed by Labette Health's Board of Trustees.

3. Use of estimates

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

4. Basis of accounting

Labette Health and its component units use enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Labette County Medical Center**  
**d/b/a Labette Health**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

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

5. Cash and cash equivalents

Labette Health and its component units consider all cash and invested cash to be cash equivalents, excluding any assets limited as to use under bond indenture agreements held by a trustee and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

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

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the average cost method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; assets restricted by the County for capital asset acquisitions; assets restricted as to use by loan agreements; and assets restricted by contributors for capital acquisition or a particular purpose. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

11. Costs of borrowing

Interest costs (including amortization of original issue premiums and discounts, and of deferred outflows on advanced refunding) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the interest method over the term of the related debt. Other costs incurred to issue long-term debt are expensed in the period incurred.



**Labette County Medical Center**  
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**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

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

12. Grants and contributions

From time to time, Labette Health and its component units receive grants and 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 are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

13. Restricted resources

When Labette Health and its component units have both restricted and unrestricted resources available to finance a particular program, their policy is to use restricted resources before unrestricted resources.

14. Accrued health insurance claims

Labette Health is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for accrued health insurance claims are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

15. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

16. Net position

Net position of Labette Health and its component units is classified in three components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Labette Health and its component units, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

17. Operating revenues and expenses

Labette Health's statement of revenues, expenses, and changes in net position and those of its component units, distinguish between operating and nonoperating revenues and expenses and those of its component units. Operating revenues result from exchange transactions associated with providing health care services, which is Labette Health's principal activity. Nonexchange revenues, including noncapital grants and contributions and the noncapital ambulance subsidy, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

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

18. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, 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.

19. Charity care

Labette Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Labette Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

20. Income taxes

Labette Health is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

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

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

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

21. Subsequent events

Labette Health and its component units have evaluated subsequent events through June 23, 2020, which is the date the financial statements were available to be issued.

**Note B - Net Patient Service Revenue**

Labette Health has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute and rehabilitation care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per occasion of service. Physician services, other than rural health clinic (RHC) services, rendered to Medicare program beneficiaries are paid based on a prospectively determined fee schedule. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. RHC physician services are paid based on cost reimbursement methodologies. Labette Health is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by Labette Health and audits or reviews thereof by the Medicare administrative contractor. Labette Health's

**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note B - Net Patient Service Revenue - Continued**

classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Labette Health's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Labette Health is classified as a sole community hospital (SCH) under the Medicare program. As a result, its inpatient operating diagnosis related group (DRG) payments are based on its hospital-specific operating DRG rate which is substantially higher than the federal operating DRG rate upon which those payments would be based if the Hospital did not have SCH status. Labette Health is also qualified under the Medicare program to receive low-volume add-on payments for inpatient services.

Medicaid - Inpatient acute and rehabilitation care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on a fee-for-service basis.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the provider, and other factors. Labette Health qualified for these disproportionate share payments during both 2019 and 2018.

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

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

A summary of gross and net patient service revenue follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 224,131,453	\$ 209,381,939
Contractual adjustments	(142,035,053)	(128,036,004)
Provision for bad debts	(10,294,399)	(11,214,552)
Charity care	<u>(1,917,642)</u>	<u>(2,871,888)</u>
Net patient service revenue	<u>\$ 69,884,359</u>	<u>\$ 67,259,495</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 32 percent and 6 percent, respectively, of Labette Health's net patient service revenue during 2019, and 34 percent and 5 percent, respectively, of Labette Health's net patient service revenue during 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note C - Deposits with Financial Institutions**

Kansas statutes authorize Labette Health with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of Labette Health.

At December 31, 2019, the carrying amount of Labette Health's bank deposits, including certificates of deposit, was \$34,718,675 and the bank balances were \$34,953,310. Of the bank balances, \$3,083,879 was covered by federal depository insurance and \$31,869,431 was covered by collateral held by third-party banks, but not registered in Labette Health's name.

**Note D - Assets Limited as to Use**

The composition of Labette Health's assets limited as to use is as follows:

	<u>2019</u>	<u>2018</u>
Internally designated for capital assets		
Cash	\$ 196,155	\$ 195,514
Certificates of deposit	17,942,090	9,819,071
Accrued interest receivable	163,087	28,238
	<u>\$ 18,301,332</u>	<u>\$ 10,042,823</u>
Under indenture agreement - held by trustee		
Cash and money market funds	<u>\$ 154,988</u>	<u>\$ 113,143</u>
By County for capital assets		
Cash	<u>\$ 1,293,628</u>	<u>\$ 1,090,144</u>
By contributors for capital assets		
Cash	<u>\$ 258,550</u>	<u>\$ -</u>

The composition of the component units' assets limited as to use is as follows:

	<u>2019</u>	<u>2018</u>
Under loan agreement		
Cash	<u>\$ 55,344</u>	<u>\$ 29,778</u>
By contributors for specific operating activities		
Cash	\$ 414,161	\$ 52,654
Certificates of deposit	288,986	287,662
Equity mutual funds		141,542
Pledges receivable	95,368	51,582
	<u>\$ 798,515</u>	<u>\$ 533,440</u>

**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note E - Investments**

The component units' investments are stated at fair value. The composition of their investments is as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 7,002	\$ 23,081
Common stocks	62,292	86,159
Equity mutual funds	149,846	174,532
Fixed income mutual funds	<u>120,567</u>	<u>275,193</u>
	<u>\$ 339,707</u>	<u>\$ 558,965</u>

**Note F - Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Mutual funds and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

The following tables set forth, by level, the component units' assets measured at fair value on a recurring basis:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 62,292	\$ -	\$ -	\$ 62,292
Mutual funds	<u>270,413</u>	<u>          </u>	<u>          </u>	<u>270,413</u>
	<u>\$ 332,705</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,705</u>
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 86,159	\$ -	\$ -	\$ 86,159
Mutual funds	<u>591,267</u>	<u>          </u>	<u>          </u>	<u>591,267</u>
	<u>\$ 677,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 677,426</u>

**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note G - Capital Assets**

Capital asset additions, retirements, and balances for Labette Health are as follows:

	2019			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Land	\$ 849,026	\$ -	\$ 5,760	\$ 854,786
Buildings	56,276,171	255,655	439,292	56,971,118
Fixed equipment	9,966,650	197,484	82,334	10,246,468
Major movable equipment	22,891,193	1,191,631	(782,302)	23,300,522
Totals at historical cost	<u>89,983,040</u>	<u>1,644,770</u>	<u>(254,916)</u>	<u>91,372,894</u>
Less accumulated depreciation and amortization				
Buildings	38,308,742	2,288,513	(844,612)	39,752,643
Fixed equipment	8,326,960	271,755	(70,955)	8,527,760
Major movable equipment	16,280,691	2,071,617	(1,445,803)	16,906,505
	<u>62,916,393</u>	<u>4,631,885</u>	<u>(2,361,370)</u>	<u>65,186,908</u>
	27,066,647	(2,987,115)	2,106,454	26,185,986
Construction in progress	<u>91,080</u>	<u>2,643,821</u>	<u>(2,352,813)</u>	<u>382,088</u>
Capital assets, net	<u>\$ 27,157,727</u>	<u>\$ (343,294)</u>	<u>\$ (246,359)</u>	<u>\$ 26,568,074</u>
	2018			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Land	\$ 849,026	\$ -	\$ -	\$ 849,026
Buildings	55,890,471	162,773	222,927	56,276,171
Fixed equipment	9,765,030	98,627	102,993	9,966,650
Major movable equipment	21,971,170	1,048,919	(128,896)	22,891,193
Totals at historical cost	<u>88,475,697</u>	<u>1,310,319</u>	<u>197,024</u>	<u>89,983,040</u>
Less accumulated depreciation and amortization				
Buildings	35,958,788	2,349,954		38,308,742
Fixed equipment	8,019,360	307,600		8,326,960
Major movable equipment	15,189,080	2,119,035	(1,027,424)	16,280,691
	<u>59,167,228</u>	<u>4,776,589</u>	<u>(1,027,424)</u>	<u>62,916,393</u>
	29,308,469	(3,466,270)	1,224,448	27,066,647
Construction in progress	<u>156,068</u>	<u>1,159,460</u>	<u>(1,224,448)</u>	<u>91,080</u>
Capital assets, net	<u>\$ 29,464,537</u>	<u>\$ (2,306,810)</u>	<u>\$ -</u>	<u>\$ 27,157,727</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note G - Capital Assets - Continued**

Construction in progress for Labette Health at December 31, 2019, consists primarily of costs incurred for various renovations to Labette Health's facilities and equipment purchased but not yet placed in service.

Capital asset additions, retirements, and balances for the component units are as follows:

	2019			
	Beginning <u>balance</u>	<u>Additions</u>	Transfers and <u>retirements</u>	Ending <u>balance</u>
Land	\$ 352,832	\$ -	\$ -	\$ 352,832
Land improvements	985,822			985,822
Buildings	4,329,411			4,329,411
Fixed equipment	<u>1,045,260</u>			<u>1,045,260</u>
Totals at historical cost	<u>6,713,325</u>	-	-	<u>6,713,325</u>
Less accumulated depreciation and amortization				
Land improvements	94,683	63,965		158,648
Buildings	494,210	283,440		777,650
Fixed equipment	<u>104,865</u>	<u>71,623</u>		<u>176,488</u>
	<u>693,758</u>	<u>419,028</u>	-	<u>1,112,786</u>
Capital assets, net	<u>\$ 6,019,567</u>	<u>\$ (419,028)</u>	<u>\$ -</u>	<u>\$ 5,600,539</u>
	2018			
	Beginning <u>balance</u>	<u>Additions</u>	Transfers and <u>retirements</u>	Ending <u>balance</u>
Land	\$ 352,832	\$ -	\$ -	\$ 352,832
Land improvements	985,822			985,822
Buildings	4,329,411			4,329,411
Fixed equipment	<u>1,045,260</u>			<u>1,045,260</u>
Totals at historical cost	<u>6,713,325</u>	-	-	<u>6,713,325</u>
Less accumulated depreciation and amortization				
Land improvements	30,718	63,965		94,683
Buildings	212,843	281,367		494,210
Fixed equipment	<u>33,242</u>	<u>71,623</u>		<u>104,865</u>
	<u>276,803</u>	<u>416,955</u>	-	<u>693,758</u>
Capital assets, net	<u>\$ 6,436,522</u>	<u>\$ (416,955)</u>	<u>\$ -</u>	<u>\$ 6,019,567</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note H - Advances Receivable**

Labette Health has determined that recruitment of physicians to serve the residents of Labette County is in the best interest of Labette Health, its patients, and the community, and will enable Labette Health to enhance its ability to meet the health care needs of the community's residents. To accomplish this, Labette Health has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in Labette Health's service area. In return, the physicians agree to provide professional services for the residents of Parsons and Labette County over periods varying from three to six years. The financial assistance is rendered in the form of contractual liquidated damages clauses which require liquidated damages to be paid to Labette Health if the service obligation is not met. Upon establishment of their practices, principal or liquidated damages and the accumulated interest on loans are forgiven ratably over the required service periods. If the physicians do not establish a medical practice, or if they leave the community prior to completion of the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, as applicable.

Labette Health's future exposure to credit loss on these agreements is dependent upon the performance of the physicians under these agreements. Outstanding commitments for future advances were approximately \$289,000 at December 31, 2019.

**Note I - Health Insurance Claims**

Labette Health sponsors a self-insured employee health insurance plan. Labette Health has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over \$100,000 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. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Labette Health has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement:

	<u>2019</u>	<u>2018</u>
Estimated net health insurance claims payable at beginning of year	\$ 233,729	\$ 316,629
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,007,590	2,213,489
Participant contributions	1,187,964	1,072,488
Payments made for claims and related expenses	<u>(3,239,400)</u>	<u>(3,368,877)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 189,883</u>	<u>\$ 233,729</u>



**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note J - Long-Term Obligations**

Long-term obligations of Labette Health are summarized as follows:

	<u>2019</u>	<u>2018</u>
3.55% Labette County, Kansas Hospital Refunding Revenue Bonds, Series 2016; issued on December 29, 2016, in the original amount of \$9,021,000; due serially through September 1, 2036, with principal payments beginning on February 1, 2017	\$ 8,491,000	\$ 8,715,000
3.80% Labette County, Kansas Hospital Refunding Revenue Bonds, Series 2017; issued on January 26, 2017, in the original amount of \$15,000,000; due serially through September 1, 2036, with principal payments beginning on March 1, 2017	14,050,000	14,444,000
Note payable bank obligations; interest rates from 2.21% to 5.00%; in the original loan amounts of \$1,346,344, collateralized by equipment and building improvements	932,063	176,724
Capital lease obligations; imputed interest rates from 2.23% to 3.74%; collateralized by leased equipment with an amortized cost of \$865,767 at December 31, 2019	<u>755,640</u>	<u>926,477</u>
	24,228,703	24,262,201
Less current maturities	<u>1,992,729</u>	<u>1,059,840</u>
Long-term obligations, less current maturities	<u>\$ 22,235,974</u>	<u>\$ 23,202,361</u>

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

	Capital lease obligations	Note payable	Hospital revenue bonds	Total long-term obligations
Outstanding at January 1, 2018	\$ 1,156,276	\$ -	\$ 23,634,000	\$ 24,790,276
Obligations incurred	833,693	226,724		1,060,417
Principal payments	<u>(1,063,492)</u>	<u>(50,000)</u>	<u>(475,000)</u>	<u>(1,588,492)</u>
Outstanding at December 31, 2018	926,477	176,724	23,159,000	24,262,201
Obligations incurred	288,438	1,119,620		1,408,058
Principal payments	<u>(459,275)</u>	<u>(364,281)</u>	<u>(618,000)</u>	<u>(1,441,556)</u>
Outstanding at December 31, 2019	<u>\$ 755,640</u>	<u>\$ 932,063</u>	<u>\$ 22,541,000</u>	<u>\$ 24,228,703</u>

**Labette County Medical Center  
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Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note J - Long-Term Obligations - Continued**

On July 19, 2007, the County issued \$24,765,000 in Hospital Refunding and Improvement Revenue Bonds, Series A, 2007, and \$6,435,000 in Taxable Hospital Refunding and Improvement Revenue Bonds, Series B, 2007 (the 2007 bonds), for the benefit of Labette Health pursuant to a Bond Trust Indenture dated June 1, 2007. The proceeds of the 2007 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) pay for renovations and additions to Labette Health's facilities, (2) refund the Hospital Refunding Revenue Bonds, Series A, 1996, and Series A, 2001, previously issued for the benefit of Labette Health, (3) refinance an outstanding bank loan, (4) fund a debt service reserve fund for the 2007 bonds, and (5) pay for certain costs related to issuance of the 2007 bonds.

On December 29, 2016, the County issued \$9,021,000 in Hospital Refunding Revenue Bonds, Series 2016 (the 2016 bonds), for the benefit of Labette Health pursuant to a First Supplemental Bond Trust Indenture dated December 1, 2016. The proceeds of the 2016 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) advance refund \$8,405,000 of the Series A, 2007 bonds, and (2) pay certain costs related to the issuance of the 2016 bonds.

The refunding transaction decreased the total amount of future debt service requirements by \$2,390,053. This resulted in an economic gain of \$1,155,571. As a result of the refunding transaction, a deferred refunding loss of \$147,641 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

On January 26, 2017, the County issued \$15,000,000 in Hospital Refunding Revenue Bonds, Series 2017 (the 2017 bonds), for the benefit of Labette Health pursuant to a Second Supplemental Bond Trust Indenture dated January 1, 2017. The proceeds of the 2017 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) advance refund \$16,360,000 of the Series A, 2007 bonds, and \$2,200,000 of the Series B, 2007 bonds, and (2) pay certain costs related to the issuance of the 2017 bonds.

The refunding transaction decreased the total amount of future debt service requirements by \$6,550,068. This resulted in an economic gain of \$3,574,540. As a result of the refunding transaction, a deferred refunding loss of \$297,687 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

The indenture agreements for the 2016 and 2017 bonds require Labette Health to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay principal and interest for the bonds on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The obligations of Labette Health under the indenture agreement are secured by a pledge of its unrestricted revenues, subject to the right of Labette Health to dispose of or encumber property as defined and permitted in the indenture agreement. The indenture agreement also includes certain restrictive covenants relating to the disposition of property, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the indenture agreement regarding the level of days cash on hand requires that those levels equal or exceed 75 days. The covenant in the indenture agreement regarding the level of fees and rates charged requires that fees and rates for services be set at levels sufficient for Labette Health to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt. That ratio value was 312 percent and 395 percent for the years ended December 31, 2019 and 2018, respectively.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note J - Long-Term Obligations - Continued**

Scheduled annual debt service requirements for Labette Health's hospital revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,008,000	\$ 818,314	\$ 1,826,314
2021	1,035,000	780,573	1,815,573
2022	1,076,000	741,554	1,817,554
2023	1,115,000	701,032	1,816,032
2024	1,152,000	659,062	1,811,062
2025 - 2029	6,404,000	2,614,093	9,018,093
2030 - 2034	7,700,000	1,313,001	9,013,001
2035 - 2036	3,051,000	104,755	3,155,755
	<u>\$ 22,541,000</u>	<u>\$ 7,732,384</u>	<u>\$ 30,273,384</u>

Scheduled payments on Labette Health's notes payable to banks are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 814,711	\$ 22,082	\$ 836,793
2021	33,578	5,690	39,268
2022	35,498	3,770	39,268
2023	37,530	1,738	39,268
2024	10,746	110	10,856
Total minimum lease payments	<u>\$ 932,063</u>	<u>\$ 33,390</u>	<u>\$ 965,453</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 170,018	\$ 23,015	\$ 193,033
2021	121,623	17,760	139,383
2022	101,648	14,244	115,892
2023	105,064	10,828	115,892
2024	92,916	7,361	100,277
2025 - 2028	164,371	9,943	174,314
Total minimum lease payments	<u>\$ 755,640</u>	<u>\$ 83,151</u>	<u>\$ 838,791</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note J - Long-Term Obligations - Continued**

Total interest costs of Labette Health are summarized as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	\$ 890,939	\$ 913,578
Amortization of deferred outflows on advance refunding	<u>36,920</u>	<u>37,741</u>
Interest expense	<u>\$ 927,859</u>	<u>\$ 951,319</u>

Long-term obligations of the component units are summarized as follows:

	<u>2019</u>	<u>2018</u>
2.38% USDA Community Facilities loan, in the original amount of \$5,600,000; payable in monthly installments of \$19,656, including interest through October 25, 2052	\$ 5,371,566	\$ 5,478,486
3.25% USDA Community Facilities loan, in the original amount of \$400,000; payable in monthly installments of \$1,596, including interest through October 25, 2052	<u>386,215</u>	<u>392,701</u>
	5,757,781	5,871,187
Less current maturities	<u>115,797</u>	<u>113,406</u>
	<u>\$ 5,641,984</u>	<u>\$ 5,757,781</u>

The following is a summary of changes in long-term debt for the component units:

Outstanding at January 1, 2018	\$ 5,985,262
Principal payments	<u>(114,075)</u>
Outstanding at December 31, 2018	5,871,187
Principal payments	<u>(113,406)</u>
Outstanding at December 31, 2019	<u>\$ 5,757,781</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note J - Long-Term Obligations - Continued**

Scheduled annual debt service requirements on long-term debt for the component units, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 115,797	\$ 139,227	\$ 255,024
2021	119,027	135,997	255,024
2022	121,947	133,077	255,024
2023	124,939	130,085	255,024
2024	127,648	127,376	255,024
2025 - 2029	688,363	586,757	1,275,120
2030 - 2034	777,212	497,908	1,275,120
2035 - 2039	877,631	397,489	1,275,120
2040 - 2044	991,008	284,112	1,275,120
2045 - 2049	1,119,533	155,587	1,275,120
2050 - 2052	694,676	24,907	719,583
	<u>\$ 5,757,781</u>	<u>\$ 2,612,522</u>	<u>\$ 8,370,303</u>

Total interest expense for the component units for December 31, 2019 and 2018, was \$141,618 and \$140,949, respectively. No interest was capitalized by the component units during the years ended December 31, 2019 and 2018.

**Note K - Defined Contribution Pension Plans**

Labette Health sponsors a defined contribution pension plan that provides pension benefits for substantially all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plan are as follows.

Employees become eligible for employer contributions after completing one year of service. Labette Health contributes a percentage of gross compensation based on the eligible employee's years of service as follows: 2 percent if more than one year but less than 5 years of service; 4 percent if five or more years of service but less than fifteen; and 6 percent if fifteen or more years of service. Labette Health may also make a discretionary matching contribution of participant contributions to the plan. The contribution cannot exceed a percentage of gross compensation based on the eligible employee's years of service as follows: 1 percent if more than five years of service but less than ten years of service, and 2 percent if more than ten years of service.

The employees are not required to make contributions to the plan but may elect to contribute from 1 percent to 20 percent of the participant's compensation subject to maximum limits as defined by the Internal Revenue Service.

Labette Health's contributions for each employee are fully vested after 10 years of continuous service.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note K - Defined Contribution Pension Plans - Continued**

For the years ended December 31, 2019 and 2018, Labette Health and covered employees made contributions to the plan as follows:

	<u>2019</u>	<u>2018</u>
Employer contributions	\$ 498,053	\$ 468,000
Employee contributions	<u>533,330</u>	<u>433,534</u>
	<u>\$ 1,031,383</u>	<u>\$ 901,534</u>

Labette Health has entered into deferred compensation agreements with certain employees. These agreements are eligible deferred compensation plans under Section 401(a) or 457(b) of the Internal Revenue Code. The plans can be amended by mutual consent of Labette Health and the plans' participants. All assets of the plans are held by a third-party investment company for the sole benefit of the employee and the employee's designated beneficiary. The plans generally provide for employer contributions based on the employees' years of service. The employees are not required to make contributions to the plans but may elect to contribute a percentage of compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions become fully vested after periods defined in each plan. For the years ended December 31, 2019 and 2018, Labette Health and covered employees made contributions to these plans as follows:

	<u>2019</u>	<u>2018</u>
Employer contributions	\$ 420,931	\$ 362,121
Employee contributions	<u>188,395</u>	<u>148,745</u>
	<u>\$ 609,326</u>	<u>\$ 510,866</u>

**Note L - Concentration of Credit Risk**

Labette Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	29.1 %	29.8 %
Medicaid	11.9	11.5
Blue Cross	12.3	10.4
Other insurers	23.9	22.0
Patients	<u>22.8</u>	<u>26.3</u>
	<u>100.0 %</u>	<u>100.0 %</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note M - Component Units' Condensed Financial Information**

The following is condensed financial data for the discretely presented component units of Labette Health as of December 31, 2019 and 2018, and for the years then ended. The Foundation is a major component unit due to the considerable financial benefit it provides to Labette Health.

	2019		2018	
	Major component unit	Nonmajor component units	Major component unit	Nonmajor component units
Cash and cash equivalents	\$ 79,969	\$ 2,004	\$ -	\$ 73
Investments	339,707		558,965	
Other receivables	557		724	
Pledges receivable	25,086		105,234	
Prepaid expenses			874	
Total current assets	445,319	2,004	665,797	73
Assets limited as to use	853,859		563,218	
Capital assets, net	5,332,182	268,357	5,725,891	293,676
Other assets	156,422		154,540	
Total assets	<u>\$ 6,787,782</u>	<u>\$ 270,361</u>	<u>\$ 7,109,446</u>	<u>\$ 293,749</u>
Current portion of long-term obligations Due to Labette Health	\$ 115,797	\$ -	113,406	\$ -
	380	273,274	47,476	322,215
Total liabilities	116,177	273,274	160,882	322,215
Long-term obligations, less current maturities	5,641,984	-	5,757,781	-
Net position				
Net investment in capital assets	(425,598)	21,767	(145,296)	(2,958)
Restricted				
For debt service	55,344		29,778	
Expendable for specific Labette Health operating activities	798,515		533,440	
Unrestricted	601,360	(24,680)	772,861	(25,508)
Total net position	1,029,621	(2,913)	1,190,783	(28,466)
Total liabilities and net position	<u>\$ 6,787,782</u>	<u>\$ 270,361</u>	<u>\$ 7,109,446</u>	<u>\$ 293,749</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note M - Component Units' Condensed Financial Information - Continued**

	2019		2018	
	Major component <u>unit</u>	Nonmajor component <u>units</u>	Major component <u>unit</u>	Nonmajor component <u>units</u>
Rental revenue from Labette Health	\$ 600,000	\$ 46,003	\$ 600,000	\$ 39,292
Other operating revenues	<u>786,001</u>	<u>          </u>	<u>278,387</u>	<u>          </u>
Total operating revenues	<u>1,386,001</u>	<u>46,003</u>	<u>878,387</u>	<u>39,292</u>
Supplies and other expenses	1,108,318	(4,870)	702,097	9,795
Depreciation and amortization	<u>393,708</u>	<u>25,320</u>	<u>393,708</u>	<u>23,247</u>
Total operating expenses	<u>1,502,026</u>	<u>20,450</u>	<u>1,095,805</u>	<u>33,042</u>
Operating income (loss)	(116,025)	25,553	(217,418)	6,250
Nonoperating revenues	<u>(45,137)</u>	<u>          </u>	<u>(165,784)</u>	<u>          </u>
Change in net position	(161,162)	25,553	(383,202)	6,250
Net position beginning of year	<u>1,190,783</u>	<u>(28,466)</u>	<u>1,573,985</u>	<u>(34,716)</u>
Net position end of year	<u>\$ 1,029,621</u>	<u>\$ (2,913)</u>	<u>\$ 1,190,783</u>	<u>\$ (28,466)</u>



**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note M - Component Units' Condensed Financial Information - Continued**

	2019		2018	
	Major component <u>unit</u>	Nonmajor component <u>units</u>	Major component <u>unit</u>	Nonmajor component <u>units</u>
Cash flows from operating activities				
Payments for supplies and services	\$ (1,110,396)	\$ 32	\$ (707,661)	\$ (8,022)
Other receipts and payments	<u>1,422,530</u>	<u>46,003</u>	<u>881,418</u>	<u>39,292</u>
Net cash provided by operating activities	<u>312,134</u>	<u>46,035</u>	<u>173,757</u>	<u>31,270</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(44,143)	(44,104)	(3,200)	(31,306)
Repayments of long-term obligations	(113,406)		(114,075)	
Interest paid	<u>(141,618)</u>		<u>(140,949)</u>	
Net cash used by capital and related financing activities	<u>(299,167)</u>	<u>(44,104)</u>	<u>(258,224)</u>	<u>(31,306)</u>
Cash flows from investing activities				
Changes in				
Assets restricted by contributors	141,542		(45,263)	
Investments	251,517		92,560	
Investment income received	<u>62,340</u>		<u>44,156</u>	
Net cash provided by investing activities	<u>455,399</u>	-	<u>91,453</u>	-
Net change in cash and cash equivalents	468,366	1,931	6,986	(36)
Cash and cash equivalents at beginning of year	<u>370,094</u>	<u>73</u>	<u>363,108</u>	<u>109</u>
Cash and cash equivalents at end of year	<u>\$ 838,460</u>	<u>\$ 2,004</u>	<u>\$ 370,094</u>	<u>\$ 73</u>
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	\$ 79,969	\$ 2,004	\$ -	\$ 73
Cash included in assets limited as to use				
Under loan agreement	55,344		29,778	
For specific operating activities	<u>703,147</u>		<u>340,316</u>	
Total cash and cash equivalents	<u>\$ 838,460</u>	<u>\$ 2,004</u>	<u>\$ 370,094</u>	<u>\$ 73</u>

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note N - Risk Management**

For the years ended December 31, 2019 and 2018, Labette Health was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. Labette Health is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against Labette Health for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy period of \$3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2020, for the policy period from January 1, 2020 to January 1, 2021.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, Labette Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Labette Health purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

**Note O - Commitments and Contingencies**

Labette Health purchases professional and general liability insurance to cover medical malpractice and other liability claims (Note N). There are known claims and incidents that have been asserted. These claims have been referred to Labette Health's insurance carriers and are in various stages of processing. No accrual for loss contingencies related to these items has been made in the financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated.

Labette Health leases property from the Foundation under a lease expiring October 31, 2052. Scheduled future minimum rental payments under this lease are as follows:

2020		\$ 600,000
2021		600,000
2022		600,000
2023		600,000
2024		600,000
2025 - 2029		3,000,000
2030 - 2034		3,000,000
2035 - 2039		3,000,000
2040 - 2044		3,000,000
2045 - 2049		3,000,000
2050 - 2052		<u>1,700,000</u>
Total future minimum lease payments		<u><u>\$ 19,700,000</u></u>

The Foundation recognized \$600,000 in other operating revenue under this rental agreement during 2019 and 2018.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note O - Commitments and Contingencies - Continued**

Labette Health also leases other property and equipment under various operating leases. Rental expense for all operating leases consisted of the following:

	<u>2019</u>	<u>2018</u>
Minimum rentals due under leases expiring in more than one year	\$ 600,000	\$ 600,000
Other rents	<u>181,251</u>	<u>86,133</u>
	<u>\$ 781,251</u>	<u>\$ 686,133</u>

**Note P - Related Party Transactions**

Labette Health received \$1,024,938 and \$647,511 from the Foundation during 2019 and 2018, respectively. The Foundation received \$173,550 from Labette Health during 2019. Labette Health incurred \$67,424 and \$88,782 in salary and employee benefit expense on behalf of the Foundation during 2019 and 2018, respectively. Labette Health paid rent to the Foundation totaling \$600,000 during 2019 and 2018.

Labette Health paid rent to LHRP totaling \$46,003 and \$39,292 during 2019 and 2018, respectively.

At December 31, 2019, Labette Health had approximately \$2,630,000 of deposits with a local bank in addition to an outstanding equipment lease of approximately \$275,000. A member of Labette Health's board of trustees is an executive officer of the local bank.

**Note Q - County Tax Proceeds**

On June 26, 2001, voters of the County approved a .25 percent health care retailers' sales tax to be used as a source of funding for the provision of emergency medical services. The County has agreed to pay Labette Health an amount equal to the lesser of 100 percent of the sales tax or 95 percent of Labette Health's direct loss attributable to the provision of ambulance services. Of the sales tax, 100 percent exceeded 95 percent of Labette Health's direct loss attributable to the provision of ambulance services by \$323,242 during 2019 and by \$370,350 during 2018. The County has restricted these amounts to use for future capital acquisitions for ambulance services.

**Note R - Subsequent Events**

Subsequent to year-end, the United States and global equity, credit, and labor markets experienced significant declines resulting from uncertainty caused by the worldwide coronavirus pandemic. Labette Health's operations have been negatively impacted by the effects of the worldwide coronavirus pandemic. Labette Health is closely monitoring operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to Labette Health's financial position is not known. Due to the uncertainty surrounding coronavirus and the impact on business, Labette Health entered into a line of credit agreement in the amount of \$2,800,000 with a local bank on March 26, 2020. The line of credit bears interest at a rate of 1.95 percent and matures on March 26, 2021.

**Labette County Medical Center  
d/b/a Labette Health  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note R - Subsequent Events - Continued**

Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) to provide financial assistance and economic stimulus. Under the terms of the CARES Act, Labette Health applied for and was granted a \$6,118,700 Small Business Administration (SBA) Paycheck Protection Program (PPP) Loan administered by a SBA approved partner. The PPP loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest. Principal and interest are deferred with deferral terms dependent on certain criteria. Labette Health is eligible for loan forgiveness of up to 100 percent of the loan, upon meeting certain requirements. Labette Health intends to take measures to maximize the loan forgiveness. In addition, Labette is the beneficiary of several CARES provider relief fund grants in the amount of \$6,239,341. These CARES grant awards are conditional and are to be used to prevent, prepare for, and respond to coronavirus and to reimburse Labette Health for health care related expenses or lost revenues that are attributable to coronavirus. Labette Health was awarded an additional CARES grant award in the amount of \$494,614 that is to support coronavirus testing and related expenses in rural health clinics. Labette Health also received a \$150,000 special emergency funding grant from the State of Kansas.

On April 10, 2020, Labette Health entered into a construction note payable with a local bank to finance expansion of the urology clinic. The note totaling \$392,000 has an interest rate of 2.35 percent and matures on April 10, 2021.

On May 28, 2020, Labette Health entered into a 60-month lease agreement for surgical equipment. Total cost of the equipment covered by the lease is \$1,575,000 and minimum lease payments during the lease term will be \$27,427 per month beginning on the fifth month of the lease.

On June 2, 2020, the County issued its Hospital Revenue Bonds, Series 2020 in the amount of \$10,000,000 on behalf of Labette Health. The proceeds of the 2020 Hospital Revenue Bonds will be used together with available funds of Labette Health, for the purpose of providing funds to (1) expand and remodel the main hospital campus, and (2) pay certain costs related to the issuance of the 2020 Hospital Revenue Bonds. The 2020 Hospital Revenue Bonds mature annually from December 31, 2021 through December 31, 2040, and bear a 3.10 percent annual interest rate.