

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
Independent Auditor's Report and Financial Statements  
December 31, 2019 and 2018

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**December 31, 2019 and 2018**

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## Independent Auditor's Report

Board of Trustees  
Graham County Hospital  
Hill City, Kansas

We have audited the accompanying financial statements of Graham County Hospital (the Hospital), a component unit of Graham 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 Graham County Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 from material misstatement.

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

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

### ***Opinion***

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

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***BKD, LLP***

Wichita, Kansas  
August 17, 2020

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Balance Sheets**  
**December 31, 2019 and 2018**

**Assets and Deferred Outflows of Resources**

|  | <u>2019</u>          | <u>2018</u>         |
|--|----------------------|---------------------|
| <b>Current Assets</b>  |                      |                     |
| Cash and cash equivalents  | \$ 716,136           | \$ 1,231,516        |
| Patient accounts receivable, net of allowance;<br>2019 - \$584,000, 2018 - \$498,000 | 1,737,215            | 1,346,979           |
| Estimated amounts due from third-party payers  | -                    | 135,000             |
| Supplies   | 183,409              | 189,682             |
| Other receivables  | 156,566              | 38,427              |
| Prepaid expenses and other   | <u>109,852</u>       | <u>136,553</u>      |
| Total current assets   | <u>2,903,178</u>     | <u>3,078,157</u>    |
| <b>Noncurrent Investments</b>  |                      |                     |
| Certificates of deposit designated by Board of Trustees                              | 5,281,648            | 3,887,959           |
| Farm land  | <u>1,054,300</u>     | <u>-</u>            |
|  | <u>6,335,948</u>     | <u>3,887,959</u>    |
| <b>Capital Assets, Net</b>   | <u>2,182,047</u>     | <u>2,424,721</u>    |
| <b>Other Assets</b>  |                      |                     |
| Scholarship receivable   | <u>2,000</u>         | <u>1,000</u>        |
| Total assets   | <u>11,423,173</u>    | <u>9,391,837</u>    |
| <b>Deferred Outflows of Resources</b>  |                      |                     |
| Pension  | 346,926              | 321,384             |
| Other postemployment benefits  | <u>758</u>           | <u>-</u>            |
| Total deferred outflows of resources   | <u>347,684</u>       | <u>321,384</u>      |
| Total assets and deferred outflows of resources                                      | <u>\$ 11,770,857</u> | <u>\$ 9,713,221</u> |

## Liabilities, Deferred Inflows of Resources and Net Position

|  | <u>2019</u>          | <u>2018</u>         |
|--|----------------------|---------------------|
| <b>Current Liabilities</b>   |                      |                     |
| Accounts payable   | \$ 152,808           | \$ 138,237          |
| Accrued expenses   | 351,218              | 310,170             |
| Estimated amounts due to third-party payers                          | <u>530,000</u>       | <u>-</u>            |
| Total current liabilities  | <u>1,034,026</u>     | <u>448,407</u>      |
| <b>Net Pension Liability</b>   | <u>2,587,570</u>     | <u>2,528,976</u>    |
| <b>Total Other Postemployment Benefits Liability</b>                 | <u>49,304</u>        | <u>43,363</u>       |
| Total liabilities  | <u>3,670,900</u>     | <u>3,020,746</u>    |
| <br><b>Deferred Inflows of Resources</b>                             |                      |                     |
| Pension  | 217,699              | 332,452             |
| Other postemployment benefits  | <u>17,331</u>        | <u>13,969</u>       |
| Total deferred inflows of resources                                  | <u>235,030</u>       | <u>346,421</u>      |
| <br><b>Net Position</b>  |                      |                     |
| Net investment in capital assets                                     | 2,182,047            | 2,424,721           |
| Unrestricted   | <u>5,682,880</u>     | <u>3,921,333</u>    |
| Total net position   | <u>7,864,927</u>     | <u>6,346,054</u>    |
| Total liabilities, deferred inflows of resources<br>and net position | <u>\$ 11,770,857</u> | <u>\$ 9,713,221</u> |

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2019 and 2018**

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| <b>Operating Revenues</b>  |                     |                     |
| Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$399,152; 2018 - \$171,831 | \$ 6,923,326        | \$ 6,756,853        |
| Other  | 806,043             | 129,485             |
|  | <u>7,729,369</u>    | <u>6,886,338</u>    |
| <b>Operating Expenses</b>  |                     |                     |
| Salaries and wages   | 3,806,577           | 3,476,547           |
| Employee benefits  | 1,184,848           | 1,025,709           |
| Purchased services and professional fees   | 1,057,899           | 960,553             |
| Other supplies and expenses  | 1,761,562           | 1,381,183           |
| Depreciation   | 330,034             | 308,353             |
|  | <u>8,140,920</u>    | <u>7,152,345</u>    |
|  | <u>(411,551)</u>    | <u>(266,007)</u>    |
| <b>Operating Loss</b>  |                     |                     |
| <b>Nonoperating Revenues</b>   |                     |                     |
| Noncapital appropriations - Graham County  | 702,546             | 801,767             |
| Interest income  | 114,128             | 61,407              |
| Noncapital grants and gifts  | 1,113,750           | 30,235              |
|  | <u>1,930,424</u>    | <u>893,409</u>      |
| <b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b>                                      | 1,518,873           | 627,402             |
| <b>Capital Grants and Gifts</b>  | <u>-</u>            | <u>13,516</u>       |
| <b>Increase in Net Position</b>  | 1,518,873           | 640,918             |
| <b>Net Position, Beginning of Year</b>   | <u>6,346,054</u>    | <u>5,705,136</u>    |
| <b>Net Position, End of Year</b>   | <u>\$ 7,864,927</u> | <u>\$ 6,346,054</u> |

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

|   | <u>2019</u>        | <u>2018</u>         |
|---|--------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>                     |                    |                     |
| Receipts from and on behalf of patients                         | \$ 7,198,090       | \$ 6,946,313        |
| Payments to suppliers and contractors                           | (2,890,055)        | (2,371,071)         |
| Payments to employees   | (5,023,533)        | (4,690,390)         |
| Other receipts, net   | <u>806,043</u>     | <u>129,485</u>      |
| Net cash provided by operating activities                       | <u>90,545</u>      | <u>14,337</u>       |
| <b>Cash Flows From Noncapital Financing Activities</b>          |                    |                     |
| Noncapital appropriations - Graham County                       | 702,546            | 801,767             |
| Noncapital grants and gifts                                     | <u>59,450</u>      | <u>30,235</u>       |
| Net cash provided by noncapital financing activities            | <u>761,996</u>     | <u>832,002</u>      |
| <b>Cash Flows From Capital and Related Financing Activities</b> |                    |                     |
| Capital grants and gifts  | -                  | 13,516              |
| Purchases of capital assets                                     | <u>(87,360)</u>    | <u>(229,130)</u>    |
| Net cash used in capital and related financing activities       | <u>(87,360)</u>    | <u>(215,614)</u>    |
| <b>Cash Flows From Investing Activities</b>                     |                    |                     |
| Interest income received  | 114,128            | 61,407              |
| Purchase of investments   | (1,914,465)        | (2,599,857)         |
| Proceeds from disposition of investments                        | 520,776            | 2,072,294           |
| Net (advances) repayments on scholarship receivable             | <u>(1,000)</u>     | <u>2,000</u>        |
| Net cash used in investing activities                           | <u>(1,280,561)</u> | <u>(464,156)</u>    |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>         | (515,380)          | 166,569             |
| <b>Cash and Cash Equivalents, Beginning of Year</b>             | <u>1,231,516</u>   | <u>1,064,947</u>    |
| <b>Cash and Cash Equivalents, End of Year</b>                   | <u>\$ 716,136</u>  | <u>\$ 1,231,516</u> |



**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2019 and 2018**

|  | <b>2019</b>  | <b>2018</b>  |
|--|--------------|--------------|
| <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b> |              |              |
| Operating loss   | \$ (411,551) | \$ (266,007) |
| Depreciation   | 330,034      | 308,353      |
| Provision for uncollectible accounts   | 399,152      | 171,831      |
| Changes in operating assets and liabilities  |              |              |
| Patient accounts receivable  | (789,388)    | (46,110)     |
| Estimated amounts due from and to third-party payers                                 | 665,000      | 63,739       |
| Accounts payable and accrued expenses  | 55,619       | 47,579       |
| Other assets and liabilities   | (85,165)     | (95,578)     |
| Net pension liability  | 58,594       | (96,422)     |
| Total other postemployment benefits liability  | 5,941        | (4,811)      |
| Deferred outflows of resources - pension and OPEB                                    | (26,300)     | 49,780       |
| Deferred inflows of resources - pension and OPEB                                     | (111,391)    | (118,017)    |
| Net cash provided by operating activities  | \$ 90,545    | \$ 14,337    |
| <b>Noncash Investing, Capital and Financing Activities</b>                           |              |              |
| Acceptance of farm land held in an estate  | \$ 1,054,300 | \$ -         |

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

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

***Nature of Operations and Reporting Entity***

Graham County Hospital (Hospital) is an acute care hospital located in Hill City, Kansas. The Hospital is a component unit of Graham County (County) and governed by an elected five-member Board of Trustees. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Graham County area.

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

***Cash Equivalents***

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

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

***Noncurrent Investments***

Noncurrent investments include assets consisting of certificates of deposit and farm land. The certificates of deposit are set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its direction subsequently use for other purposes. The farm land was gifted by a donor's estate and is being held for the purpose of income.

***Patient Accounts Receivable***

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

***Supplies***

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

***Capital Assets***

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

|                   |              |
|-------------------|--------------|
| Land improvements | 5 – 20 years |
| Buildings         | 5 – 40 years |
| Equipment         | 3 – 20 years |

***Capital Asset Impairment***

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

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

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

***Deferred Outflows of Resources***

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

***Compensated Absences***

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

***Risk Management***

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

***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 pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS's fiduciary net position 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.

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

***Defined Benefit Other Postemployment Benefit Plan***

The Hospital has a single-employer defined benefit other postemployment benefit (OPEB) plan, Long-term Disability (LTD) Plan (the OPEB Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

***Deferred Inflows of Resources***

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets.

***Net Position***

Net position of the Hospital is classified in two components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

***Net Patient Service Revenue***

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

***Charity Care***

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

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

***Noncapital Appropriations – Graham County***

The Hospital received approximately 7% and 10% in 2019 and 2018, respectively, of its financial support from proceeds of noncapital appropriations for property and sales taxes. The Hospital requests sales tax funds from the County on an as needed basis.

Property taxes are levied in November of one year and are received beginning in January of the following year. Revenue from noncapital appropriations – Graham County is recognized in full in the year in which use is first permitted.

***Income Taxes***

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

**Note 2: Deposits and Investments**

***Deposits***

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

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

At December 31, 2019 and 2018, \$5,021,471 and \$4,414,511 of the Hospital’s bank balances of \$6,021,469 and \$4,929,556, respectively, were exposed to custodial credit risk as follows:

|   | <b>2019</b>  | <b>2018</b>  |
|---|--------------|--------------|
| Uninsured and uncollateralized  | \$ 22,312    | \$ -         |
| Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the Hospital’s name | 4,999,159    | 4,414,511    |
|   | \$ 5,021,471 | \$ 4,414,511 |

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

**Summary of Carrying Values**

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

|  | <b>2019</b>  | <b>2018</b>  |
|--|--------------|--------------|
| Carrying value                                   |              |              |
| Deposits   | \$ 5,997,784 | \$ 5,119,475 |
| Included in the following balance sheet captions |              |              |
| Cash and cash equivalents                        | \$ 716,136   | \$ 1,231,516 |
| Noncurrent investments - certificates of deposit | 5,281,648    | 3,887,959    |
|  | \$ 5,997,784 | \$ 5,119,475 |

**Investments**

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

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

- Farm land of \$1,054,300 is valued using a comparative market analysis (Level 2 input).

**Note 3: Patient Accounts Receivable**

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

|   | <b>2019</b>  | <b>2018</b>  |
|---|--------------|--------------|
| Medicare                                  | \$ 1,199,895 | \$ 793,847   |
| Medicaid                                  | 42,425       | 24,063       |
| Other third-party payers                  | 355,512      | 397,017      |
| Patients                                  | 723,383      | 630,052      |
|   | 2,321,215    | 1,844,979    |
| Less allowance for uncollectible accounts | 584,000      | 498,000      |
|   | \$ 1,737,215 | \$ 1,346,979 |

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

**Note 4: Capital Assets**

Capital assets activity for the years ended December 31 was:

|                               | <b>2019</b>                  |                     |                  |                  |                           |
|-------------------------------|------------------------------|---------------------|------------------|------------------|---------------------------|
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Disposals</b> | <b>Transfers</b> | <b>Ending<br/>Balance</b> |
| Land                          | \$ 86,154                    | \$ -                | \$ -             | \$ -             | \$ 86,154                 |
| Land improvements             | 89,920                       | -                   | -                | -                | 89,920                    |
| Buildings                     | 3,915,422                    | -                   | -                | -                | 3,915,422                 |
| Equipment                     | 3,362,590                    | 87,360              | (7,469)          | -                | 3,442,481                 |
|                               | <u>7,454,086</u>             | <u>87,360</u>       | <u>(7,469)</u>   | <u>-</u>         | <u>7,533,977</u>          |
| Less accumulated depreciation |                              |                     |                  |                  |                           |
| Land improvements             | 76,082                       | 1,042               | -                | -                | 77,124                    |
| Buildings                     | 2,404,074                    | 96,385              | -                | -                | 2,500,459                 |
| Equipment                     | 2,549,209                    | 232,607             | (7,469)          | -                | 2,774,347                 |
|                               | <u>5,029,365</u>             | <u>330,034</u>      | <u>(7,469)</u>   | <u>-</u>         | <u>5,351,930</u>          |
| Capital assets, net           | <u>\$ 2,424,721</u>          | <u>\$ (242,674)</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 2,182,047</u>       |
|                               |                              |                     |                  |                  |                           |
|                               | <b>2018</b>                  |                     |                  |                  |                           |
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Disposals</b> | <b>Transfers</b> | <b>Ending<br/>Balance</b> |
| Land                          | \$ 86,154                    | \$ -                | \$ -             | \$ -             | \$ 86,154                 |
| Land improvements             | 89,920                       | -                   | -                | -                | 89,920                    |
| Buildings                     | 3,915,422                    | -                   | -                | -                | 3,915,422                 |
| Equipment                     | 3,411,217                    | 229,130             | (277,957)        | 200              | 3,362,590                 |
| Construction in progress      | 200                          | -                   | -                | (200)            | -                         |
|                               | <u>7,502,913</u>             | <u>229,130</u>      | <u>(277,957)</u> | <u>-</u>         | <u>7,454,086</u>          |
| Less accumulated depreciation |                              |                     |                  |                  |                           |
| Land improvements             | 75,039                       | 1,043               | -                | -                | 76,082                    |
| Buildings                     | 2,304,853                    | 99,221              | -                | -                | 2,404,074                 |
| Equipment                     | 2,619,077                    | 208,089             | (277,957)        | -                | 2,549,209                 |
|                               | <u>4,998,969</u>             | <u>308,353</u>      | <u>(277,957)</u> | <u>-</u>         | <u>5,029,365</u>          |
| Capital assets, net           | <u>\$ 2,503,944</u>          | <u>\$ (79,223)</u>  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 2,424,721</u>       |



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**Note 5: Professional Liability Coverage and Claims**

The Hospital purchases professional liability insurance which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

**Note 6: Net Patient Service Revenue**

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

*Medicare.* The Hospital is recognized as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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

Approximately 75% and 78% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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**Note 7: Charity Care**

The costs of charity care provided under the Hospital's charity care policy were approximately \$9,000 and \$30,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Note 8: 340B Drug Pricing Program**

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$770,030 and \$88,811 for the years ending December 31, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$300,008 and \$28,642 for the years ending December 31, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

**Note 9: Pension Plan**

***Plan Description***

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) plan a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. The KPERS 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 System, Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.*

The KPERS is intended to be a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Benefit provisions are contained in the plan document and were established and can be amended by action of KPERS's governing body. The KPERS issues a publicly available financial report that can be obtained by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at [www.KPERS.org](http://www.KPERS.org).

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

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

The Hospital's employees participate in the Local group.

***Benefits Provided***

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. The plan 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 10 years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 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.

The terms of the plan provide for 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.

**Graham County Hospital**  
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**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 statewide 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 8.89% and 8.39% of annual payroll, respectively. 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.

The Hospital's contributions to KPERS for pensions for the years ended December 31, 2019 and 2018, were \$313,741 and \$279,285, respectively.

***Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2019 and 2018, the Hospital reported a liability of \$2,587,570 and \$2,528,976, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018, respectively. 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 0.184174%, which was an increase of 0.003728% from its proportion measured as of June 30, 2018, of 0.181446%. At June 30, 2017, the Hospital's proportion was 0.181255%.

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For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$232,230 and \$104,101, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>2019</b>                                   |  |
|---|---|--|
|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
| Differences between expected and actual experience                                  | \$ 5,664                                      | \$ 65,166                                    |
| Net difference between projected and actual earnings on<br>pension plan investments | 60,877  | -  |
| Changes of assumptions  | 79,086  | 5,245  |
| Changes in proportion   | 41,846  | 147,288                                      |
| Hospital's contributions subsequent to the measurement date                         | 159,453                                       | -  |
| Total   | \$ 346,926                                    | \$ 217,699                                   |
|   | <b>2018</b>                                   |  |
|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
| Differences between expected and actual experience                                  | \$ 9,131                                      | \$ 71,660                                    |
| Net difference between projected and actual earnings on<br>pension plan investments | 59,160  | -  |
| Changes of assumptions  | 109,515                                       | 12,179                                       |
| Changes in proportion   | 2,130   | 248,613                                      |
| Hospital's contributions subsequent to the measurement date                         | 141,448                                       | -  |
| Total   | \$ 321,384                                    | \$ 332,452                                   |

**Graham County Hospital**  
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At December 31, 2019, the Hospital reported \$159,453 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, related to pensions will be recognized in pension expense as follows:

|      |             |
|------|-------------|
| 2020 | \$ (4,002)  |
| 2021 | (64,857)    |
| 2022 | 11,749      |
| 2023 | 26,451      |
| 2024 | 433         |
|      | <hr/>       |
|      | \$ (30,226) |
|      | <hr/> <hr/> |

**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:

|  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Inflation  | 2.75%       | 2.75%       |
| Salary increases, including inflation  | 3.5% to 12% | 3.5% to 12% |
| Investment rate of return, net of pension plan investment expense, including inflation | 7.75%       | 7.75%       |

Mortality rates were based on the RP-2014 Healthy Annuitant Table for males or females, as appropriate with adjustments for mortality improvements based on Scale MP-16 for the December 31, 2018 and 2017, actuarial valuations.

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 December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

**Graham County Hospital**  
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| <b>Asset Class</b>     | <b>2019</b>                  |   | <b>2018</b>                  |   |
|------------------------|------------------------------|---|------------------------------|---|
|                        | <b>Target<br/>Allocation</b> | <b>Long-term<br/>Expected<br/>Real Rate<br/>of Return</b> | <b>Target<br/>Allocation</b> | <b>Long-term<br/>Expected<br/>Real Rate<br/>of Return</b> |
| Global equity          | 47%                          | 6.85%   | 47%                          | 6.85%   |
| Fixed income           | 13%                          | 1.25%   | 13%                          | 1.25%   |
| Yield driven           | 8%                           | 6.55%   | 8%                           | 6.55%   |
| Real return            | 11%                          | 1.71%   | 11%                          | 1.71%   |
| Real estate            | 11%                          | 5.05%   | 11%                          | 5.05%   |
| Alternatives           | 8%                           | 9.85%   | 8%                           | 9.85%   |
| Short-term investments | 2%                           | -0.25%  | 2%                           | -0.25%  |
|                        | <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 June 30, 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 employer contribution rates certified by 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 plan's 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.

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
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***Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. 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 as of December 31, 2019:

|   | 1%<br>Decrease<br>(6.75%) | Current<br>Discount<br>Rate<br>(7.75%) | 1%<br>Increase<br>(8.75%) |
|---|---------------------------|--|---------------------------|
| Hospital's proportionate share of the net pension liability | \$ 3,864,590              | \$ 2,587,570                           | \$ 1,519,366              |

***Pension Plan Fiduciary Net Position***

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

**Note 10: Other Postemployment Benefit Plan**

***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's governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.



**Graham County Hospital**  
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**Benefits Provided**

The OPEB Plan provides 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 first occurs. Upon the death of a member who is receiving monthly disability benefits, the 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.

The employees covered by the benefit terms at June 30 (the measurement date), are:

|                    | 2019 | 2018 |
|--------------------|------|------|
| Active employees   | 65   | 64   |
| Disabled employees | 1    | 1    |
|                    | 66   | 65   |

**Total OPEB Liability**

The Hospital's total OPEB liability of \$49,304 and \$43,363 was measured as of June 30, 2019 and 2018, for the years ended December 31, 2019 and 2018, respectively, and was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, and rolled forward to June 30, 2019 and 2018, respectively.

**Graham County Hospital**  
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**December 31, 2019 and 2018**

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

|                                       | <b>2019</b>  | <b>2018</b>  |
|---------------------------------------|--------------|--------------|
| Inflation                             | 2.75%        | 2.75%        |
| Discount rate                         | 3.50%        | 3.87%        |
| Salary increases, including inflation | 3.50% to 10% | 3.50% to 10% |

The discount rate was based on the Bond Buyer General Obligation 20-Year Municipal Bond Index. The discount rate changed from 3.58% in 2017 to 3.87% in 2018 to 3.50% in 2019.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2019 Mortality Tables for the December 31, 2018, actuarial valuation.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2018 Mortality Tables for the December 31, 2017, actuarial valuation.

The actuarial assumptions used in the December 31, 2018, valuations were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2015.

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2016.

***Changes in the Total OPEB Liability***

Changes in the total OPEB liability are:

|  | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|
| Balance, beginning of year                         | \$ 43,363   | \$ 48,174   |
| Changes for the year:                              |             |             |
| Service cost                                       | 9,817       | 9,729       |
| Interest   | 2,035       | 2,035       |
| Differences between expected and actual experience | (5,556)     | (13,850)    |
| Changes of assumptions                             | 845         | (588)       |
| Benefit payments                                   | (1,200)     | (2,137)     |
| Net changes  | 5,941       | (4,811)     |
| Balance, end of year                               | \$ 49,304   | \$ 43,363   |

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
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**December 31, 2019 and 2018**

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

The total OPEB liability of the Hospital, at December 31, 2019, has been calculated using a discount rate of 3.50%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2019 discount rate.

|                                 | 1%<br>Decrease<br>(2.50%) | Current<br>Discount<br>Rate<br>(3.50%) | 1%<br>Increase<br>(4.50%) |
|---------------------------------|---------------------------|--|---------------------------|
| Hospital's total OPEB liability | \$ 51,411                 | \$ 49,304                              | \$ 46,962                 |

The total OPEB liability of the Hospital is not impacted by health care cost trend rates given the nature of the benefits provided by the OPEB plan, as such no sensitivity tables were prepared for the health care trend rates.

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

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$9,745 and \$10,141, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

|  | 2019                                 |                                     |
|--|--------------------------------------|-------------------------------------|
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience | \$ -                                 | \$ (15,977)                         |
| Changes of assumptions                             | 758                                  | (1,354)                             |
| Total  | \$ 758                               | \$ (17,331)                         |
|  | 2018                                 |                                     |
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience | \$ -                                 | \$ (12,421)                         |
| Changes of assumptions                             | -                                    | (1,548)                             |
| Total  | \$ -                                 | \$ (13,969)                         |

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Notes to Financial Statements**  
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Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to OPEB will be recognized in OPEB expense as follows:

|            |                           |
|------------|---------------------------|
| 2020       | \$ (2,107)                |
| 2021       | (2,107)                   |
| 2022       | (2,107)                   |
| 2023       | (2,107)                   |
| 2024       | (2,107)                   |
| Thereafter | <u>(6,038)</u>            |
|            | <u><u>\$ (16,573)</u></u> |

**Note 11: Subsequent Events**

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Hospital received approximately \$271,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain the stimulus payments.

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

On April 27, 2020, the Hospital obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$882,000 at 1.00% interest with a 2-year maturity. With the passing of the *Paycheck Protection Program Flexibility Act of 2020*, PPP loans entered into before June 5, 2020 could be modified to reflect a 5-year maturity by agreement with the lender and borrow. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

**Graham County Hospital**  
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On May 6, 2020, the Hospital received approximately \$2,861,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

On May 20, 2020, the Hospital received approximately \$49,000 of additional stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring for COVID-19 testing. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

**Note 12: Future Change in Accounting Principle**

***Leases***

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

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

## **Required Supplementary Information**

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Schedule of the Hospital's Proportionate Share of the Net Pension Liability**  
**Kansas Public Employees Retirement System Plan**  
**Last Ten Fiscal Years**

|   | <b>2019 *</b> | <b>2018 *</b> | <b>2017 *</b> | <b>2016 *</b> |
|---|---------------|---------------|---------------|---------------|
| Hospital's proportion of the net pension liability  | 0.185174%     | 0.181446%     | 0.181255%     | 0.194302%     |
| Hospital's proportionate share of the net pension liability   | \$ 2,587,570  | \$ 2,528,976  | \$ 2,625,398  | \$ 3,005,909  |
| Hospital's covered-employee payroll   | \$ 3,428,963  | \$ 3,289,696  | \$ 3,214,297  | \$ 3,330,742  |
| Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 75.46%        | 76.88%        | 81.68%        | 90.25%        |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 69.88%        | 68.88%        | 67.12%        | 65.10%        |

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

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

| <b>2015 *</b> | <b>2014 *</b> |
|---------------|---------------|
| 0.207488%     | 0.214663%     |
| \$ 2,724,409  | \$ 2,642,100  |
| \$ 3,680,191  | \$ 3,850,675  |
| 74.03%        | 68.61%        |
| 64.95%        | 66.60%        |



**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Schedule of the Hospital's Pension Contributions**  
**Kansas Public Employees Retirement System Plan**  
**Last Ten Fiscal Years**

|   | <u>2019 *</u>     | <u>2018 *</u>     | <u>2017 *</u>     | <u>2016 *</u>     |
|---|-------------------|-------------------|-------------------|-------------------|
| Contractually required contribution                                 | \$ 313,741        | \$ 279,285        | \$ 273,890        | \$ 289,442        |
| Contribution in relation to the contractually required contribution | <u>\$ 313,741</u> | <u>\$ 279,285</u> | <u>\$ 273,890</u> | <u>\$ 289,442</u> |
| Contribution deficiency (excess)                                    | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| Hospital's covered-employee payroll                                 | \$ 3,529,142      | \$ 3,328,783      | \$ 3,250,609      | \$ 3,152,963      |
| Contributions as a percentage of covered-employee payroll           | 8.89%             | 8.39%             | 8.43%             | 9.18%             |

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

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

| <u>2015 *</u>      | <u>2014 *</u>      |
|--------------------|--------------------|
| \$ 310,354         | \$ 333,591         |
| <u>\$ 310,354</u>  | <u>\$ 333,591</u>  |
| <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| \$ 3,520,988       | \$ 4,137,052       |
| 8.81%              | 8.06%              |

**Graham County Hospital**  
**A Component Unit of Graham County, Kansas**  
**Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios**  
**Last Ten Fiscal Years**

|  | <u>2019 *</u>    | <u>2018 *</u>    | <u>2017 *</u>    |
|--|------------------|------------------|------------------|
| <b>Total OPEB Liability</b>  |                  |                  |                  |
| Service cost   | \$ 9,817         | \$ 9,729         | \$ 11,491        |
| Interest   | 2,035            | 2,035            | 1,539            |
| Differences between expected and actual experience                                 | (5,556)          | (13,850)         | -                |
| Changes in assumptions   | 845              | (588)            | (1,287)          |
| Benefit payments   | (1,200)          | (2,137)          | (12,088)         |
| <b>Net Change in Total OPEB Liability</b>  | 5,941            | (4,811)          | (345)            |
| <b>Hospital's Total OPEB Liability - Beginning</b>                                 | 43,363           | 48,174           | 48,519           |
| <b>Hospital's Total OPEB Liability - Ending</b>                                    | <u>\$ 49,304</u> | <u>\$ 43,363</u> | <u>\$ 48,174</u> |
| <b>Hospital's Covered-employee Payroll</b>   | \$ 3,473,023     | \$ 2,917,992     | \$ 3,116,588     |
| <b>Hospital's Total OPEB Liability as a Percentage of Covered-employee Payroll</b> | 1.42%            | 1.49%            | 1.55%            |

**Note to Schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

**Changes in Assumptions:** Discount rate changed from 2.85% for 2016 to 3.58 % for 2017 to 3.87% for 2018 and to 3.50% for 2019.

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