

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas

Independent Auditor's Report and Financial Statements

September 30, 2020 and 2019

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
September 30, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Board of Trustees of Ottawa County Health Center
Minneapolis, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Ottawa County Health Center (BOT), a component unit of Ottawa County, Kansas, and Great Plains of Ottawa County, Inc. (GPOC) as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the BOT'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 the Board of Trustees of Ottawa County Health Center and of its discretely presented component unit as of September 30, 2020 and 2019, and the respective change in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1* to the financial statements, in 2020, the reporting entity changed to include Great Plains of Ottawa County, Inc. as a discretely presented component unit of the Board of Trustees of Ottawa County Health Center. Our opinion is not modified with respect to this matter.

As discussed in *Note 18* to the financial statements, in 2020, Great Plains of Ottawa County, Inc. adopted Accounting Standards updated (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

Required Supplementary Information

The Board of Trustees has omitted the management's discussion and analysis information 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
January 12, 2021

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas

Balance Sheets
September 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 346,747	\$ 842,528
Other	131,638	303
Total current assets	478,385	842,831
Endowment	130,483	118,873
Capital Assets, Net	1,445,899	1,550,260
Total assets	<u>\$ 2,054,767</u>	<u>\$ 2,511,964</u>
Liabilities and Net Position		
Current Liabilities		
Due to Hospital	\$ 131,237	\$ -
Total current liabilities	131,237	-
Net Position		
Net investment in capital assets	1,445,899	1,550,260
Restricted nonexpendable permanent endowments	101,360	101,360
Unrestricted	376,271	860,344
Total net position	1,923,530	2,511,964
Total liabilities and net position	<u>\$ 2,054,767</u>	<u>\$ 2,511,964</u>

Board of Trustees of Ottawa County Health Center

A component Unit of Ottawa County, Kansas

Great Plains of Ottawa County, Inc.

Balance Sheets

September 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 4,844,487	\$ 995,964
Patient accounts receivable, net of allowances; 2019 - \$11,462	392,454	627,412
Estimated amounts due from third-party payers	689,879	190,944
Due from Board of Trustees	131,237	-
Supplies	86,865	73,221
Prepaid expenses and other	74,729	48,755
Total current assets	6,219,651	1,936,296
Certificates of Deposit	1,121,317	1,094,651
Property and Equipment, at Cost		
Land and land improvements	557,294	581,503
Buildings	7,644,834	7,853,000
Fixed equipment	921,816	991,466
Moveable equipment	1,708,381	1,775,493
Construction in progress	819,323	-
	11,651,648	11,201,462
Less accumulated depreciation	(6,086,576)	(6,018,042)
	5,565,072	5,183,420
Other Assets	45,644	52,102
Total assets	\$ 12,951,684	\$ 8,266,469

Liabilities and Net Assets

	2020	2019
Current Liabilities		
Current maturities of long-term debt	\$ 552,859	\$ 53,062
Accounts payable	272,787	113,482
Accrued salaries payable	166,683	175,506
Accrued payroll taxes payable	65,138	67,334
Accrued benefits payable	183,880	219,195
Other accrued liabilities	79,910	83,326
Deferred revenue	3,024,094	-
Total current liabilities	4,345,351	711,905
 Long-term Debt	 261,558	 39,172
Total liabilities	4,606,909	751,077
 Net Assets		
Without donor restrictions	8,344,775	7,515,392
Total liabilities and net assets	\$ 12,951,684	\$ 8,266,469

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Noncapital appropriations - Ottawa County	\$ 573,242	\$ 539,495
Rent	<u>97,080</u>	<u>97,080</u>
Total operating revenues	<u>670,322</u>	<u>636,575</u>
Operating Expenses		
Depreciation	104,361	104,362
Other	<u>1,291</u>	<u>3,126</u>
Total operating expenses	<u>105,652</u>	<u>107,488</u>
Operating Income	<u>564,670</u>	<u>529,087</u>
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	13,655	6,835
Investment income	15,887	5,837
Contributions to Hospital for operations	<u>(204,723)</u>	<u>(413,359)</u>
Total nonoperating (revenues) expenses	<u>(175,181)</u>	<u>(400,687)</u>
Income Before Contributions to Hospital for Property and Equipment	389,489	128,400
Contributions to Hospital for Property and Equipment	<u>(977,923)</u>	<u>(161,954)</u>
Decrease in Net Position	(588,434)	(33,554)
Net Position, Beginning of Year	<u>2,511,964</u>	<u>2,545,518</u>
Net Position, End of Year	<u><u>\$ 1,923,530</u></u>	<u><u>\$ 2,511,964</u></u>

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Great Plains of Ottawa County, Inc.
Statements of Operations and Changes in Net Assets
Years Ended September 30, 2020 and 2019

	2020	2019
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)		\$ 6,364,603
Provision for uncollectible accounts		(59,925)
Net patient service revenue less provision for uncollectible accounts	\$ 6,263,665	6,304,678
Wellness Center	32,785	45,619
SPARK program funding	98,143	-
Other COVID-19 funding	100,000	-
Other	69,444	62,632
Total unrestricted revenues, gains and other support	<u>6,564,037</u>	<u>6,412,929</u>
Expenses and Losses		
Salaries and wages	3,057,917	3,104,767
Supplies and other	3,290,894	3,086,635
Depreciation	609,544	598,302
Loss on sale of property and equipment	2,149	-
Total expenses	<u>6,960,504</u>	<u>6,789,704</u>
Operating Loss	<u>(396,467)</u>	<u>(376,775)</u>
Other Income		
Contributions received from the Board of Trustees for operations	204,723	413,359
Interest income	43,204	38,219
Total other income	<u>247,927</u>	<u>451,578</u>
Excess (Deficiency) of Revenues Over Expenses	(148,540)	74,803
Contributions Received From the Board of Trustees for Property and Equipment	<u>977,923</u>	<u>161,954</u>
Increase in Net Assets	829,383	236,757
Net Assets, Beginning of Year	<u>7,515,392</u>	<u>7,278,635</u>
Net Assets, End of Year	<u><u>\$ 8,344,775</u></u>	<u><u>\$ 7,515,392</u></u>

Board of Trustees of Ottawa County Health Center
A component Unit of Ottawa County, Kansas
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from Ottawa County	\$ 573,242	\$ 539,495
Other receipts and payments, net	<u>95,789</u>	<u>93,954</u>
Net cash provided by operating activities	<u>669,031</u>	<u>633,449</u>
Cash Flows From Noncapital Financing Activities		
Noncapital grants and gifts	13,655	6,835
Contribution to Hospital for operations	<u>(204,723)</u>	<u>(413,359)</u>
Net cash used in noncapital financing activities	<u>(191,068)</u>	<u>(406,524)</u>
Cash Flows From Capital and Related Financing Activities		
Contributions to Hospital for property and equipment	<u>(977,923)</u>	<u>(161,954)</u>
Net cash used in capital and related financing activities	<u>(977,923)</u>	<u>(161,954)</u>
Cash Flows From Investing Activities		
Interest in investments	<u>4,179</u>	<u>4,425</u>
Net cash provided by investing activities	<u>4,179</u>	<u>4,425</u>
Increase (Decrease) in Cash	(495,781)	69,396
Cash, Beginning of Year	<u>842,528</u>	<u>773,132</u>
Cash, End of Year	<u><u>\$ 346,747</u></u>	<u><u>\$ 842,528</u></u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 564,670	\$ 529,087
Depreciation expense	<u>104,361</u>	<u>104,362</u>
Net cash provided by operating activities	<u><u>\$ 669,031</u></u>	<u><u>\$ 633,449</u></u>

Board of Trustees of Ottawa County Health Center
A component Unit of Ottawa County, Kansas
Great Plains of Ottawa County, Inc.
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 829,383	\$ 236,757
Items not requiring (providing) operating cash flow		
Depreciation	609,544	598,302
Provision for uncollectible accounts	-	59,925
Loss on sale of property and equipment	2,149	-
Contributions received from the Board of Trustees for property and equipment	(977,923)	(161,954)
Changes in assets and liabilities		
Patient accounts receivable	234,958	(209,569)
Estimated amounts due from and to third-party payers	(498,935)	(38,944)
Due from Board of Trustees	(131,237)	-
Supplies	(13,644)	12,295
Prepaid expenses and other	(25,975)	(1,556)
Accounts payable	21,361	8,678
Accrued salaries and payroll taxes payable	(11,019)	7,405
Accrued benefits payable	(35,315)	9,759
Other accrued liabilities	(3,416)	2,482
Deferred revenue	3,024,094	-
Net cash provided by operating activities	<u>3,024,025</u>	<u>523,580</u>
Investing Activities		
Change in certificates of deposit	(26,666)	(24,456)
Purchase of property and equipment	(848,942)	(101,207)
Net cash used in investing activities	<u>(875,608)</u>	<u>(125,663)</u>
Financing Activities		
Contributions received from the Board of Trustees for property and equipment	977,923	161,954
Principal payments on capital lease obligations	(53,062)	(49,924)
Proceeds from issuance of long-term debt	775,245	-
Net cash provided by financing activities	<u>1,700,106</u>	<u>112,030</u>
Increase in Cash	3,848,523	509,947
Cash, Beginning of Year	<u>995,964</u>	<u>486,017</u>
Cash, End of Year	<u><u>\$ 4,844,487</u></u>	<u><u>\$ 995,964</u></u>
Supplemental Cash Flows Information		
Property and equipment in accounts payable	\$ 196,514	\$ 58,700
Interest paid	\$ 4,205	\$ 7,343

Board of Trustees of Ottawa County Health Center

A Component Unit of Ottawa County, Kansas

Notes to Financial Statements

September 30, 2020 and 2019

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

Nature of Operations and Reporting Entity

The Board of Trustees of Ottawa County Health Center (BOT) was organized by the County Commissioners of Ottawa County to operate a governmental hospital and to control the use of noncapital appropriations. The BOT is appointed by the County Commissioners of Ottawa County. The BOT is considered to be a component unit of Ottawa County, Kansas.

Great Plains of Ottawa County, Inc. (GPOC/Hospital) is located in Minneapolis, Kansas and provides acute, swing-bed, head trauma care and long-term care services under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. seq. with the BOT (*Note 2*). In 2020, the reporting entity changed to include Great Plains of Ottawa County, Inc. as a discretely presented component unit of the BOT. Based on the increasing financial relationships and transactions with GPOC, the BOT believes as a matter of professional judgment that it would be misleading to exclude the financial statements of GPOC. As a result, GPOC is considered to be a component of unit of the BOT and is discretely presented in the BOT's financial statements. GPOC reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Basis of Accounting and Presentation

The financial statements of the BOT have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transactions take place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include noncapital appropriations and exchange transactions. Noncapital grants and gifts, investment income (loss) and contributions to Hospital for operations are included in nonoperating revenues (expenses). The BOT first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The BOT prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

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

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2020 and 2019

Cash Equivalents

The BOT considers all liquid investments with original maturities of three months or less to be cash equivalents.

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 BOT:

Land improvements	15 years
Buildings	10 – 30 years

Capital Asset Impairment

The BOT 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 September 30, 2020 and 2019.

Noncapital Appropriations – Ottawa County

The BOT receives noncapital appropriations from Ottawa County, Kansas, property tax levy. Property taxes are assessed on a calendar year basis and are received beginning in January 1 of each year. Revenue from noncapital appropriations is recognized in full in the year for which use is first permitted.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation.
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the BOT, such as permanent endowments.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Board of Trustees of Ottawa County Health Center

A Component Unit of Ottawa County, Kansas

Notes to Financial Statements

September 30, 2020 and 2019

Income Taxes

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

Note 2: Lease and Management Arrangement - BOT

The BOT controls facilities, including buildings, as well as equipment and other assets, which are owned by Ottawa County, Kansas, and leased to GPOC by the BOT. The lease agreement provides that GPOC will assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. The original lease term was for a period of 5 years through December 18, 2005, with two renewal option periods of five years each, which ended December 18, 2015. GPOC extended the lease agreement through additional renewal options. The BOT leases the hospital facilities to GPOC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPOC, has a management agreement with GPOC. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPOC upon commencement of the original term, December 18, 2000. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the BOT.

Note 3: Deposits - BOT

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 BOT'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.

As of September 30, 2020 and 2019, respectively, \$268,399 and \$563,564 of the BOT's bank balances of \$530,234 and \$842,528 were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and collateral held by pledging financial institution's trust department in other than the BOT's name	<u>\$ 268,399</u>	<u>\$ 563,564</u>

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2020 and 2019

Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	<u>\$ 346,747</u>	<u>\$ 842,528</u>
Included in the following balance sheet captions		
Cash	<u>\$ 346,747</u>	<u>\$ 842,528</u>

Note 4: Endowment and Restricted Net Position - BOT

The endowment is the BOT's interest in a trust at a local bank established for the benefit of the Hospital. The principal is invested in debt and equity securities which are reported and measured at fair market value using the net asset value per share and have not been classified in the fair value hierarchy. Kansas law permits the local bank to authorize for expenditure the net appreciation of the investments in the endowment unless the contributor provides for specific instructions. The contributor of the endowment has instructed that distributions from the trust to the BOT by the local bank are unrestricted and can only be made from the investment income generated by the trust. The principal balance in the trust is restricted to investment in perpetuity.

The local bank authorizes distributions from the endowment as available. Net appreciation of \$11,610 and \$1,252 at September 30, 2020 and 2019, respectively, is included in the accompanying statements of revenues, expenses and changes in net position.

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2020 and 2019

Note 5: Capital Assets - BOT

Capital asset activity for the years ended September 30 was:

	2020			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 95,855	\$ -	\$ -	\$ 95,855
Buildings	1,767,491	-	-	1,767,491
	<u>1,863,346</u>	<u>-</u>	<u>-</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	(19,171)	(6,390)	-	(25,561)
Buildings	(293,915)	(97,971)	-	(391,886)
	<u>(313,086)</u>	<u>(104,361)</u>	<u>-</u>	<u>(417,447)</u>
Capital Assets, Net	<u>\$ 1,550,260</u>	<u>\$ (104,361)</u>	<u>\$ -</u>	<u>\$ 1,445,899</u>

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 95,855	\$ -	\$ -	\$ 95,855
Buildings	1,767,491	-	-	1,767,491
	<u>1,863,346</u>	<u>-</u>	<u>-</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	(12,781)	(6,390)	-	(19,171)
Buildings	(195,943)	(97,972)	-	(293,915)
	<u>(208,724)</u>	<u>(104,362)</u>	<u>-</u>	<u>(313,086)</u>
Capital Assets, Net	<u>\$ 1,654,622</u>	<u>\$ (104,362)</u>	<u>\$ -</u>	<u>\$ 1,550,260</u>

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas

Notes to Financial Statements
September 30, 2020 and 2019

Note 6: Nature of Operations and Summary of Significant Accounting Policies – GPOC/Hospital

Nature of Operations

Great Plains of Ottawa County, Inc. (GPOC/Hospital) is located in Minneapolis, Kansas and provides acute, swing-bed, head trauma care and long-term care services under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. seq. with the BOT (*Note 2*).

Use of Estimates

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

Cash Equivalents

GPOC considers all liquid investments with original maturities of three months or less to be cash equivalents.

At September 30, 2020 and 2019, GPOC's cash accounts exceeded federally insured limits by approximately \$5,356,000 and \$1,541,000, respectively. The remaining amount is collateralized with pledged securities.

Certificates of Deposit

The certificates of deposit are measured at amortized cost. Original maturities of the certificates of deposit are all 12 months or more.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patients' responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2020 and 2019

Supplies

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

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	10-15 years
Buildings	10-40 years
Fixed equipment	10-25 years
Moveable equipment	5-20 years

Long-lived Asset Impairment

GPOC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2020 and 2019.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of the General Obligation Hospital Bonds, Series 2014. Such costs are being amortized over the term of the respective debt using the effective interest method. The unamortized debt issuance costs are included in other assets in the accompanying balance sheets. The debt obligation is recorded at the Ottawa County level.

Refund Liabilities

The consideration the Hospital has received from patients for which it does not expect to be entitled to is recorded as a refund liability and included as a component of accounts payable in the accompanying balance sheets.

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2020 and 2019

Professional Liability Claims

GPOC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

Paycheck Protection Program (PPP) Loan

GPOC received a PPP loan established by the *Coronavirus Aide, Relief and Economic Security Act (CARES Act)*. GPOC has accounted for the funding as a loan in accordance with ASC Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, the U.S. Small Business Administration (SBA), or the lender. The proceeds of the loan will remain recorded as debt until the loan is, in part or wholly, forgiven and the Hospital has been legally released or the Hospital pays off the loan.

In November 2020, the Hospital received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in fiscal year 2021.

CARES Act Funding

On March 27, 2020, President Trump signed into law the *CARES Act*, as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the Department of Health and Human Services (HHS). The Hospital has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605, *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. The Hospital received \$2,991,000 in *CARES Act* funding during the year ended September 30, 2020. Based on an analysis of the compliance and reporting requirements of the PRF and the impact of the pandemic on the Hospital's revenues and expenses through September 30, 2020, the Hospital did not recognize any of the distributions from the PRFs. The unrecognized amount of the *CARES Act* funding was \$2,991,000 at September 30, 2020, and is recorded as a component of deferred revenue in the accompanying balance sheets.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor/grantor restrictions.

Net assets without donor/grantor restrictions are available for use in general operations and not subject to donor/grantor restrictions.

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Patient Service Revenue

Patient service revenue is recognized as the Hospital satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policies and implicit price concessions provided to uninsured patients.

The Hospital determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payer groups. The Hospital determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Charity Care

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

Charges excluded from revenue under GPOC's charity care policy were \$41,540 and \$60,752 for September 30, 2020 and 2019, respectively. GPOC's direct and indirect costs for services and supplies furnished under GPOC's charity care policy aggregated approximately \$52,000 and \$67,000 in 2020 and 2019, respectively. Costs were calculated using the overall cost-to-charge ratio from the September 30, 2020 and 2019, as-filed Medicare cost reports.

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Contributions

Contributions are provided to the Hospital either with or without restrictions placed on the gift by the donor/grantor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor/grantor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Hospital overcoming a donor/grantor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor/grantor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor/grantor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor/grantor restrictions are reclassified to net assets without donor/grantor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor/grantor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor/grantor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor/grantor restrictions.

Conditional contributions having donor/grantor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor/grantor restrictions.

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Excess (Deficiency) of Revenues Over Expenses

The statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in net assets without donor/grantor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor/grantor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

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

GPOC files tax returns in the U.S. federal jurisdiction.

Note 7: Concentration of Risk – GPOC/Hospital

GPOC grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2020 and 2019, for GPOC is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	72%	75%
Medicaid	4%	4%
Blue Cross	5%	6%
Other third-party payers	17%	9%
Patients	<u>2%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

Note 8: Professional Liability Claims – GPOC/Hospital

GPOC purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. GPOC also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

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Based on GPOC's claims experience, no receivable or liability has been recorded in the accompanying financial statements related to its malpractice insurance policy. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Long-term Debt – GPOC/Hospital

At September 30, 2020 and 2019, long-term debt and capital lease obligations consisted of the following:

	2020	2019
SBA PPP loan payable (A)	\$ 775,245	\$ -
Capital lease obligations (B)	39,172	92,234
	<hr/>	<hr/>
	814,417	92,234
Less current maturities	552,859	53,062
	<hr/>	<hr/>
	\$ 261,558	\$ 39,172
	<hr/>	<hr/>

- (A) Due March 2022; payable \$43,600 monthly, including interest at 1.00%, beginning October 18, 2020. In November 2020, the Hospital received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in fiscal year 2021.
- (B) At varying rates of imputed interest from 6.00% to 8.00%, due through December 2021; collateralized by property and equipment. Property and equipment include the following property under capital leases:

	2020	2019
Equipment	\$ 255,662	\$ 255,662
Less accumulated depreciation	218,102	169,336
	<hr/>	<hr/>
	\$ 37,560	\$ 86,326
	<hr/>	<hr/>

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Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2020, are:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2021	\$ 514,536	\$ 39,327
2022	260,709	861
	<u>\$ 775,245</u>	<u>40,188</u>
Less amount representing interest		<u>1,015</u>
Present value of future minimum lease payments		39,173
Less current maturities		<u>38,323</u>
Noncurrent portion		<u>\$ 850</u>

Note 10: Liquidity and Availability – GPOC/Hospital

GPOC's financial assets available within one year of the balance sheet date for general expenditure are:

	2020	2019
Financial assets at year-end		
Cash	\$ 4,844,487	\$ 995,964
Patient accounts receivable	392,454	627,412
Estimated amounts due from third-party payers	689,879	190,944
Due from BOT	131,237	-
Certificates of deposit	<u>1,121,317</u>	<u>1,094,651</u>
Total financial assets	7,179,374	2,908,971
Less amounts not available to be used within one year		
Certificates of deposit	<u>372,915</u>	<u>1,094,651</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,806,459</u>	<u>\$ 1,814,320</u>

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Note 11: Patient Service Revenue – GPOC/Hospital

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Hospital bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services or patients receiving services in its outpatient centers. The Hospital measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods related to the patient.

Transaction Price

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policy and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payers

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:

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Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations.

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Refund Liabilities

From time to time the Hospital will receive overpayments of patient balances from third-party payers or patients resulting in amounts owed back to either the patients or third-party payers. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2020 and 2019, the Hospital has a liability for refunds to third-party payers and patients recorded of approximately \$1,800 and \$400, respectively. The liability is included as a component of accounts payable in the accompanying balance sheets.

Patient and Uninsured Payers

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2020 and 2019, additional revenue of approximately \$217,000 and \$90,000, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Revenue Composition

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies

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- Length of the patient's service or episode of care
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, long-term care, etc.)

For the years ended September 30, 2020 and 2019, the Hospital recognized revenue of \$6,263,665 and \$6,304,678, respectively, from goods and services that transfer to the customer over time. Other non-patient care related services recognized at a point in time is not significant.

Contract Assets and Liabilities

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Hospital's obligation to provide services to patients when consideration has already been received from the patient or a third-party payer. There are no contract assets and liabilities recognized for the years ended September 30, 2020 and 2019.

Note 12: COVID-19 Pandemic and CARES Act Funding – GPOC/Hospital

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

Beginning in mid-March, the Hospital deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year.

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business.

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The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of long-lived assets.

Provider Relief Fund

During the year ended September 30, 2020, the Hospital received \$2,991,000 of distributions from the CARES Act Provider Relief Fund (collectively the Provider Relief Fund). These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The Hospital considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, our ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Strengthening People and Revitalizing Kansas (SPARK) Program Funding

During the year ended September 30, 2020, the Hospital received \$131,237 of funding through the SPARK program. The Hospital recognized \$98,143, related to this funding at September 30, 2020. The unrecognized amount of the SPARK program funding of \$33,094, at September 30, 2020, is recorded as a component of deferred revenue in the accompanying balance sheets.

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Other COVID-19 Funding

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 Kansas 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 and recognized \$100,000 on April 24, 2020, related to this special emergency grant.

Note 13: Functional Expenses – GPOC/Hospital

GPOC provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been directly assigned to health care services and general and administrative expense classifications based on the actual department in which the expense was incurred and is consistently applied. The following schedules present the natural classification of expenses by function for the years ended September 30, 2020 and 2019, as follows:

	2020		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 2,606,700	\$ 451,217	\$ 3,057,917
Supplies and other	2,752,085	538,809	3,290,894
Depreciation	593,570	15,974	609,544
Loss on sale of property and equipment	2,149	-	2,149
	<u>\$ 5,954,504</u>	<u>\$ 1,006,000</u>	<u>\$ 6,960,504</u>
	2019		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 2,648,902	\$ 455,865	\$ 3,104,767
Supplies and other	2,521,125	565,510	3,086,635
Depreciation	584,207	14,095	598,302
	<u>\$ 5,754,234</u>	<u>\$ 1,035,470</u>	<u>\$ 6,789,704</u>

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Note 14: Pension Plan – GPOC/Hospital

GPOC maintains a contributory pension plan for all eligible employees. Every employee 18 years old or older becomes a plan participant upon active employment. After 12 months of continuous employment, the employer contributes 5% of the participant's annual compensation up to \$16,000 and 10% of the participant's compensation in excess of \$16,000. The participant contributes 2.5% of compensation up to \$16,000 and 5% of compensation in excess of \$16,000. Benefits are funded by a money purchase annuity contract with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. The total cost of the plan for the years ended September 30, 2020 and 2019, was \$229,002 and \$231,598, respectively. Benefits vest at 20% per year of service with 100% vesting after five years of service.

Note 15: Great Plains Employee Benefits Trust – GPOC/Hospital

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefit Plan (the Plan) for its member organizations and their participating employees. GPOC is a member organization in the Trust and substantially all of GPOC's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No such insurance assessment was administered to GPOC for the years ended September 30, 2020 and 2019.

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Note 16: Lease and Management Agreement – GPOC/Hospital

The BOT controls facilities, including buildings, as well as equipment and other assets, which are owned by Ottawa County, Kansas, and leased to GPOC by the BOT. The lease agreement provides that GPOC will assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. The original lease term was for a period of five years through December 18, 2005, with two renewal option periods of five years each, which ended December 18, 2015. GPOC extended the lease agreement through additional renewal options. The BOT leases the hospital facilities to GPOC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPOC, has a management agreement with GPOC. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPOC upon commencement of the original term, December 18, 2000. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the BOT.

In addition, GPOC has entered into agreements with GPHA for other services, including data processing and management services, which are yearly contracts that automatically renew unless cancelled by either party at least 60 days before the end of the term. Fees incurred for services provided by GPHA totaled \$516,015 and \$425,651 in 2020 and 2019, respectively, and are included in supplies and other expense in the statements of operations and changes in net assets. Amounts included in accounts payable, related to these services, totaled \$3,911 and \$177 as of September 30, 2020 and 2019, respectively.

Note 17: Significant Estimates and Concentrations – GPOC/Hospital

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in *Notes 6* and *8*.

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 6* and *11*.

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Litigation

In the normal course of business, GPOC is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by GPOC's commercial insurance; for example, allegations regarding employment practices or performance of contracts. GPOC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 18: Change in Accounting Principle – GPOC/Hospital

Topic 606 Revenue from Contracts with Customers

On October 1, 2019, the Hospital adopted Topic 606 *Revenue from Contracts with Customers* (Topic 606), using a modified retrospective method of adoption to all contracts with customers (patients) at October 1, 2019. The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which the Hospital expects to be entitled in exchange for those goods or services.

The amount to which the Hospital expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the Hospital does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Hospital's estimation of the transaction price or revenue recorded.

The adoption had no impact on net income or net cash provided by operating activities.

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Note 19: Subsequent Events – GPOC/Hospital

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

In November 2020, the Hospital received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in fiscal year 2021.

Subsequent events have been evaluated through January 12, 2021, which is the date the financial statements were available to be issued.

Note 20: Future Change in Accounting Principle – GPOC/Hospital

Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of operations recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021. The Hospital is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.