

Coffey Health System
A Component Unit of Coffey County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

Coffey Health System
A Component Unit of Coffey County, Kansas
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Coffey Health System
Burlington, Kansas

We have audited the accompanying financial statements of Coffey Health System, a component unit of Coffey 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 Coffey Health System'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 Coffey Health System as of December 31, 2019 and 2018, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Coffey Health System's basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
June 18, 2020

Coffey Health System
A Component Unit of Coffey County, Kansas
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 929,478	\$ 479,192
Patient accounts receivable, net of allowance; 2019 - \$2,043,113, 2018 - \$2,805,500	2,322,115	2,539,954
340B contract pharmacy receivable	235,337	145,743
Estimated amounts due from third-party payers	583,335	180,000
Supplies	412,877	425,115
Prepaid expenses and other	64,516	124,884
Total current assets	4,547,658	3,894,888
Capital Assets, Net	6,941,398	6,825,971
Total assets	\$ 11,489,056	\$ 10,720,859
 Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 539,784	\$ 469,239
Accounts payable	950,869	903,390
Accrued expenses	1,614,319	1,571,334
Estimated amounts due to Medicare	-	2,897
Total current liabilities	3,104,972	2,946,860
Long-term Debt	4,021,530	3,975,175
Total liabilities	7,126,502	6,922,035
 Net Position		
Net investment in capital assets	2,380,084	2,381,557
Unrestricted	1,982,470	1,417,267
Total net position	4,362,554	3,798,824
Total liabilities and net position	\$ 11,489,056	\$ 10,720,859

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$1,502,293, 2018 - \$1,598,771	\$ 21,759,378	\$ 22,090,700
340B drug pricing program	2,032,953	828,792
Other	<u>407,615</u>	<u>364,481</u>
Total operating revenues	<u>24,199,946</u>	<u>23,283,973</u>
Operating Expenses		
Salaries and wages	14,302,497	14,056,002
Employee benefits	3,246,972	3,355,609
Purchased services and professional fees	2,106,555	2,108,701
Supplies and other	5,024,353	4,945,832
Depreciation	<u>969,403</u>	<u>1,200,367</u>
Total operating expenses	<u>25,649,780</u>	<u>25,666,511</u>
Operating Loss	<u>(1,449,834)</u>	<u>(2,382,538)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Coffey County	2,039,392	2,036,289
Interest income	5,460	8,615
Interest expense	(66,600)	(76,039)
Gain on disposal of capital assets	500	200
Noncapital grants and gifts	<u>34,812</u>	<u>278,835</u>
Total nonoperating revenues, net	<u>2,013,564</u>	<u>2,247,900</u>
Increase (Decrease) in Net Position	563,730	(134,638)
Net Position, Beginning of Year	<u>3,798,824</u>	<u>3,933,462</u>
Net Position, End of Year	<u>\$ 4,362,554</u>	<u>\$ 3,798,824</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 23,514,344	\$ 23,664,219
Payments to suppliers and contractors	(7,010,823)	(7,367,093)
Payments to and on behalf of employees	(17,506,484)	(17,329,302)
Other receipts	408,115	364,681
	<u>(594,848)</u>	<u>(667,495)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Noncapital appropriations - Coffey County	2,039,392	2,036,289
Noncapital grants and gifts	34,812	278,835
	<u>2,074,204</u>	<u>2,315,124</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Principal paid on long-term debt	(269,900)	(991,971)
Interest paid on long-term debt	(66,600)	(76,039)
Purchase of capital assets	(698,030)	(411,023)
Proceeds from issuance of long-term debt	-	200,000
	<u>(1,034,530)</u>	<u>(1,279,033)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest income received	5,460	8,615
	<u>5,460</u>	<u>8,615</u>
Net cash provided by investing activities		
Increase in Cash	450,286	377,211
Cash, Beginning of Year	<u>479,192</u>	<u>101,981</u>
Cash, End of Year	<u>\$ 929,478</u>	<u>\$ 479,192</u>

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

	2019	2018
Reconciliation of Net Operating Loss to		
Net Cash Used in Operating Activities		
Operating loss	\$ (1,449,834)	\$ (2,382,538)
Depreciation	969,403	1,200,367
Changes in operating assets and liabilities		
Patient accounts receivable, net	217,839	1,088,078
Estimated amounts due from and to third-party payers	(406,232)	(197,608)
Accounts payable and accrued expenses	90,964	(195,652)
Supplies, prepaid expenses and other assets	(16,988)	(180,142)
Net cash used in operating activities	\$ (594,848)	\$ (667,495)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 386,800	\$ 45,295

Coffey Health System
A Component Unit of Coffey 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

Coffey Health System (System) is an acute care hospital located in Burlington, Kansas. The System is a component unit of Coffey County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Coffey county area. It also operates a home health agency and long-term care and assisted living facilities in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the System 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 transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is 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 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.

Noncapital Appropriations – Coffey County

The System received approximately 8% of its financial support from noncapital appropriations derived from property taxes levied by the County in both 2019 and 2018. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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Risk Management

The System 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, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System 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. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the System:

Land improvements	5 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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Capital Asset Impairment

The System 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.

Compensated Absences

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

Net Position

Net position of the System is classified in two components. Net investment in capital assets consist 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 assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

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Charity Care

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

Income Taxes

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

Foundation

The System is the beneficiary of Coffey Health Foundation (Foundation), a separate legal entity with its own board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the System and, thus, not reflected in the accompanying financial statements.

Note 2: Net Patient Service Revenue

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

Medicare. The System is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System 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.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective rate methodology. The System is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted July 1 and January 1 using an average of the three previously filed annual 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.

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Approximately 48% and 50% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: 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 System’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, respectively, \$414,933 and \$177,593 of the System’s bank balances of \$956,182 and \$664,581 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the System’s name	<u>\$ 414,933</u>	<u>\$ 177,593</u>

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Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 927,578	\$ 477,292
Petty cash	1,900	1,900
	<u>\$ 929,478</u>	<u>\$ 479,192</u>
Included in the following balance sheet captions		
Cash	<u>\$ 929,478</u>	<u>\$ 479,192</u>

Note 4: Patient Accounts Receivable

The System 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:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 620,562	\$ 918,775
Medicaid	252,904	256,792
Blue Cross	598,908	459,784
Other third-party payers	510,623	366,574
Patients	<u>2,382,231</u>	<u>3,343,529</u>
	4,365,228	5,345,454
Less allowance for uncollectible accounts	<u>2,043,113</u>	<u>2,805,500</u>
	<u>\$ 2,322,115</u>	<u>\$ 2,539,954</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 274,184	\$ -	\$ -	\$ -	\$ 274,184
Land improvements	986,917	-	-	-	986,917
Buildings	12,538,573	-	-	176,332	12,714,905
Fixed equipment	9,049,403	-	-	107,623	9,157,026
Major moveable equipment	14,093,817	319,685	(384,702)	526,532	14,555,332
Construction in progress	54,997	765,145	-	(810,487)	9,655
	<u>36,997,891</u>	<u>1,084,830</u>	<u>(384,702)</u>	<u>-</u>	<u>37,698,019</u>
Less accumulated depreciation					
Land improvements	946,880	5,439	-	-	952,319
Buildings	8,873,904	271,241	-	-	9,145,145
Fixed equipment	7,172,501	366,709	-	-	7,539,210
Major moveable equipment	13,178,635	326,014	(384,702)	-	13,119,947
	<u>30,171,920</u>	<u>969,403</u>	<u>(384,702)</u>	<u>-</u>	<u>30,756,621</u>
Capital Assets, Net	<u>\$ 6,825,971</u>	<u>\$ 115,427</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,941,398</u>

Coffey Health System
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	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 274,184	\$ -	\$ -	\$ -	\$ 274,184
Land improvements	986,917	-	-	-	986,917
Buildings	12,385,387	-	-	153,186	12,538,573
Fixed equipment	8,948,708	-	-	100,695	9,049,403
Major moveable equipment	13,947,486	-	(3,787)	150,118	14,093,817
Construction in progress	2,678	456,318	-	(403,999)	54,997
	<u>36,545,360</u>	<u>456,318</u>	<u>(3,787)</u>	<u>-</u>	<u>36,997,891</u>
Less accumulated depreciation					
Land improvements	938,759	8,121	-	-	946,880
Buildings	8,576,893	297,011	-	-	8,873,904
Fixed equipment	6,602,719	569,782	-	-	7,172,501
Major moveable equipment	12,856,969	325,453	(3,787)	-	13,178,635
	<u>28,975,340</u>	<u>1,200,367</u>	<u>(3,787)</u>	<u>-</u>	<u>30,171,920</u>
Capital Assets, Net	<u>\$ 7,570,020</u>	<u>\$ (744,049)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,825,971</u>

Note 6: Medical Malpractice Coverage and Claims

The System purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The 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 malpractice 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 System's claims experience, no such accrual has been made. It is reasonably possible this estimate could change materially in the future.

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Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the System for the years ended December 31:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	\$ 200,000	\$ -	\$ 100,000	\$ 100,000	\$ 100,000
Note payable (B)	3,010,417	-	-	3,010,417	247,917
Capital lease obligations	<u>1,233,997</u>	<u>386,800</u>	<u>169,900</u>	<u>1,450,897</u>	<u>191,867</u>
Total long-term debt	<u>\$ 4,444,414</u>	<u>\$ 386,800</u>	<u>\$ 269,900</u>	<u>\$ 4,561,314</u>	<u>\$ 539,784</u>
	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	\$ 300,000	\$ 200,000	\$ 300,000	\$ 200,000	\$ 100,000
Note payable (B)	3,258,333	-	247,916	3,010,417	247,917
Capital lease obligations	<u>1,632,757</u>	<u>45,295</u>	<u>444,055</u>	<u>1,233,997</u>	<u>121,322</u>
Total long-term debt	<u>\$ 5,191,090</u>	<u>\$ 245,295</u>	<u>\$ 991,971</u>	<u>\$ 4,444,414</u>	<u>\$ 469,239</u>

Note Payable (A)

The note payable to the Foundation is due February 10, 2020, with principal payable on due date and interest at 4.5% payable monthly. The note is secured by certain capital assets. The debt service requirements as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	<u>\$ 100,750</u>	<u>\$ 100,000</u>	<u>\$ 750</u>

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Note Payable (B)

The note payable to the County was originally due June 3, 2025, but a one-year deferral of payments was granted by the County in July 2018, which modified the final due date to June 3, 2026, with principal payable annually beginning July 3, 2017. An additional one-year deferral of payments was granted by the County in July 2019, which modified the final due date to June 4, 2027. Payments will restart June 3, 2020; the loan is a 0% interest loan. The note is secured by certain capital assets. The debt service requirements as of December 31, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 247,917	\$ 247,917	\$ -
2021	425,000	425,000	-
2022	425,000	425,000	-
2023	425,000	425,000	-
2024	425,000	425,000	-
2025-2027	<u>1,062,500</u>	<u>1,062,500</u>	<u>-</u>
	<u>\$ 3,010,417</u>	<u>\$ 3,010,417</u>	<u>\$ -</u>

Capital Lease Obligations

The System is obligated under multiple leases for equipment that are accounted for as capital leases. A schedule of the capital assets and accumulated depreciation under capital leases at December 31, 2019 and 2018, follows:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 2,083,320	\$ 1,694,906
Less accumulated depreciation	<u>746,348</u>	<u>602,211</u>
	<u>\$ 1,336,972</u>	<u>\$ 1,092,695</u>

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The following is a schedule by year of future minimum lease payments under the capital lease obligations including interest at rates of 3.90% to 6.508% together with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending December 31,	
2020	\$ 253,200
2021	260,662
2022	239,003
2023	229,253
2024	171,800
2025-2028	<u>566,318</u>
Total minimum lease payments	1,720,236
Less amount representing interest	<u>269,339</u>
Present value of future minimum lease payments	<u><u>\$ 1,450,897</u></u>

Note 8: Pension Plan

The System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 3.5% and 7%, respectively, for 2019 and 2018. Contributions actually made by plan members and the System aggregated \$526,066 and \$920,615 during 2019 and \$512,769 and \$897,347 during 2018, respectively.

Coffey Health System
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Note 9: 340B Drug Pricing Program

The System participates in the 340B Drug Pricing Program (340B Program) enabling the System to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The System recorded revenues of \$2,032,953 and \$828,792 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 System recorded expenses of \$584,203 and \$260,219 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 10: Contingencies

Litigation

In the normal course of business, the System 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 the System's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Future Changes in Accounting Principles

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

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GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. The System is evaluating the impact the statement will have on the financial statements.

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 System is evaluating the impact the statement will have on the financial statements.

Note 12: 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 System. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 17 and April 24, 2020, the System received approximately \$366,000 and \$85,000, respectively, 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 System with no repayment obligations. Management has attested to the requirements and believes the System will retain the stimulus payments.

April 10, 2020 through April 20, 2020, the System received approximately \$2,706,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations.

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

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 System received \$100,000 on April 27, 2020, related to this special emergency grant.

On May 4, 2020, the System 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 \$2,777,000 at 1.00% interest with a maturity date of May 4, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On May 6 and June 8, 2020, the System received approximately \$3,621,000 and \$125,000, respectively, 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 System with no repayment obligations. Management has attested to the requirements and believes the System will retain a portion, if not all, of the stimulus payments.

On May 20, 2020, the System received approximately \$198,000 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 System with no repayment obligations. Management has attested to the requirements and believes the System will retain a portion, if not all, of the stimulus payments.

Supplementary Information

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Net Patient Service Revenues
Years Ended December 31, 2019 and 2018

	2019		
	Inpatient	Outpatient	Total
Nursing Services			
Acute hospital	\$ 676,424	\$ 12,495	\$ 688,919
Swing-bed	118,572	-	118,572
Nursery	68,192	-	68,192
Long-term care	1,482,625	-	1,482,625
Assisted living	664,695	-	664,695
	<u>3,010,508</u>	<u>12,495</u>	<u>3,023,003</u>
Other Professional Services			
Operating room	980,190	2,504,595	3,484,785
Recovery room	16,540	296,376	312,916
Delivery room	151,760	28,180	179,940
Anesthesiology	137,486	528,782	666,268
Radiology	295,210	7,389,469	7,684,679
Laboratory	341,524	4,657,898	4,999,422
Blood administration	6,810	8,112	14,922
Respiratory services	298,480	133,540	432,020
Physical therapy	160,419	1,047,178	1,207,597
Occupational therapy	130,035	345,172	475,207
Speech pathology	31,660	291,999	323,659
Electrocardiology	9,198	251,087	260,285
Central service	1,572	4,406	5,978
Pharmacy	880,178	2,941,248	3,821,426
Specialty clinics	3,780	1,132,822	1,136,602
Emergency room	45,668	3,541,682	3,587,350
Observation	30,107	409,206	439,313
Rural health clinic	146	5,354,963	5,355,109
Ambulance	-	1,336,047	1,336,047
Home health	-	260,656	260,656
Physician clinics	-	1,060,692	1,060,692
Lifeline	-	15,030	15,030
Senior care	-	37,721	37,721
	<u>3,520,763</u>	<u>33,576,861</u>	<u>37,097,624</u>
	<u>\$ 6,531,271</u>	<u>\$ 33,589,356</u>	40,120,627
Contractual Allowances, Charity Care and Provision for Uncollectible Accounts			<u>18,361,249</u>
Net Patient Service Revenue			<u>\$ 21,759,378</u>

2018		
Inpatient	Outpatient	Total
\$ 981,208	\$ 10,320	\$ 991,528
146,057	-	146,057
77,144	-	77,144
1,417,682	-	1,417,682
720,991	-	720,991
3,343,082	10,320	3,353,402
1,067,955	3,265,315	4,333,270
20,776	337,080	357,856
189,927	23,615	213,542
153,894	568,809	722,703
333,654	6,499,297	6,832,951
403,601	4,801,436	5,205,037
7,094	22,801	29,895
536,173	137,898	674,071
160,139	965,275	1,125,414
138,849	307,793	446,642
26,315	185,315	211,630
15,038	265,613	280,651
1,645	3,053	4,698
1,228,975	2,675,888	3,904,863
1,385	1,217,800	1,219,185
53,593	3,490,275	3,543,868
25,509	438,254	463,763
-	5,533,903	5,533,903
-	1,395,400	1,395,400
-	245,545	245,545
-	805,636	805,636
-	15,291	15,291
-	27,975	27,975
4,364,522	33,229,267	37,593,789
\$ 7,707,604	\$ 33,239,587	40,947,191
		18,856,491
		\$ 22,090,700

Coffey Health System
A Component Unit of Coffey County, Kansas
Deductions from Revenue and Other Operating Revenue
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Deductions from Revenue		
Medicare	\$ 9,720,234	\$ 10,494,408
Medicaid	1,665,013	1,426,921
Blue Cross	4,073,735	4,335,564
Other third-party payers	1,192,148	820,613
Charity care	81,453	22,524
Administrative adjustments	126,373	157,690
Provision for uncollectible accounts	1,502,293	1,598,771
	<u>\$ 18,361,249</u>	<u>\$ 18,856,491</u>

Other Operating Revenue

Mobile magnetic resonance imaging	\$ 87,100	\$ 66,625
Cafeteria	198,517	193,271
In-house catering	47,999	36,965
Education	6,311	1,430
Sale of medical records	19,913	12,743
Rebates from vendors	-	5,725
Miscellaneous	47,775	47,722
	<u>\$ 407,615</u>	<u>\$ 364,481</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses
Years Ended December 31, 2019 and 2018

	2019			2018		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Nursing service	\$ 736,787	\$ 101,109	\$ 837,896	\$ 688,818	\$ 75,079	\$ 763,897
Nursery	30,613	1,548	32,161	23,454	1,489	24,943
Long-term care	1,336,311	402,635	1,738,946	1,232,048	364,419	1,596,467
Assisted living	530,294	170,024	700,318	507,020	179,183	686,203
Nursing administration	101,869	1,650	103,519	97,179	702	97,881
	<u>2,735,874</u>	<u>676,966</u>	<u>3,412,840</u>	<u>2,548,519</u>	<u>620,872</u>	<u>3,169,391</u>
Other Professional Services						
Operating room	220,987	101,347	322,334	192,969	104,014	296,983
Recovery room	12,422	164	12,586	21,948	99	22,047
Delivery room	316,056	47,049	363,105	291,351	8,032	299,383
Anesthesiology	278,793	40,658	319,451	272,800	55,961	328,761
Radiology	619,213	557,758	1,176,971	589,545	593,633	1,183,178
Laboratory	369,799	575,176	944,975	401,452	584,450	985,902
Blood administration	-	14,365	14,365	-	32,091	32,091
Respiratory services	161,934	10,937	172,871	170,881	10,448	181,329
Physical therapy	258,720	21,941	280,661	257,529	20,148	277,677
Occupational therapy	128,110	1,086	129,196	131,316	341	131,657
Speech pathology	62,382	11,308	73,690	45,779	27,617	73,396
Electrocardiology	16,739	5	16,744	16,831	-	16,831
Central service	15,883	522,654	538,537	8,631	602,892	611,523
Pharmacy	187,814	1,165,909	1,353,723	188,210	869,119	1,057,329
Specialty clinics	96,480	58,193	154,673	86,863	42,199	129,062
Emergency room	926,120	285,028	1,211,148	929,314	165,801	1,095,115
Rural health clinic	3,414,864	684,374	4,099,238	3,560,571	761,307	4,321,878
Ambulance	898,763	89,818	988,581	876,472	84,177	960,649
Home health	240,951	75,327	316,278	229,308	85,770	315,078
Physician clinics	553,296	31,740	585,036	593,432	27,122	620,554
Lifeline	-	4,772	4,772	-	5,332	5,332
Senior care	-	-	-	-	75	75
Wolf Creek	55,319	3,500	58,819	43,650	5,450	49,100
	<u>8,834,645</u>	<u>4,303,109</u>	<u>13,137,754</u>	<u>8,908,852</u>	<u>4,086,078</u>	<u>12,994,930</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses (Continued)
Years Ended December 31, 2019 and 2018

	2019			2018		
	Salaries	Other	Total	Salaries	Other	Total
General Services						
Plant operation	\$ 204,093	\$ 371,458	\$ 575,551	\$ 171,753	\$ 381,602	\$ 553,355
Laundry	18,908	9,201	28,109	18,880	11,054	29,934
Housekeeping	192,629	33,203	225,832	195,007	27,036	222,043
Dietary	284,530	234,814	519,344	296,734	246,224	542,958
	<u>700,160</u>	<u>648,676</u>	<u>1,348,836</u>	<u>682,374</u>	<u>665,916</u>	<u>1,348,290</u>
Administration Services						
Administration and general	1,598,928	1,371,510	2,970,438	1,536,432	1,492,223	3,028,655
Medical records	335,918	45,546	381,464	284,257	106,557	390,814
Marketing	96,972	85,101	182,073	95,568	82,887	178,455
	<u>2,031,818</u>	<u>1,502,157</u>	<u>3,533,975</u>	<u>1,916,257</u>	<u>1,681,667</u>	<u>3,597,924</u>
Employee Benefits		<u>3,246,972</u>	<u>3,246,972</u>		<u>3,355,609</u>	<u>3,355,609</u>
Depreciation		<u>969,403</u>	<u>969,403</u>		<u>1,200,367</u>	<u>1,200,367</u>
	<u>\$ 14,302,497</u>	<u>\$ 11,347,283</u>	<u>\$ 25,649,780</u>	<u>\$ 14,056,002</u>	<u>\$ 11,610,509</u>	<u>\$ 25,666,511</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Financial and Statistical Comparisons
Years Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 24,199,946	\$ 23,283,973	\$ 21,414,552	\$ 22,065,417	\$ 22,786,061
Operating Expenses	<u>25,649,780</u>	<u>25,666,511</u>	<u>24,693,110</u>	<u>24,192,296</u>	<u>25,981,161</u>
Loss From Operations	<u>\$ (1,449,834)</u>	<u>\$ (2,382,538)</u>	<u>\$ (3,278,558)</u>	<u>\$ (2,126,879)</u>	<u>\$ (3,195,100)</u>
Total Salaries	<u>\$ 14,302,497</u>	<u>\$ 14,056,002</u>	<u>\$ 13,749,007</u>	<u>\$ 13,544,133</u>	<u>\$ 13,878,428</u>
Full-time Equivalents	<u>260.5</u>	<u>256.6</u>	<u>256.9</u>	<u>267.1</u>	<u>276.8</u>
Patient Days (Acute and Swing-bed)					
Medicare	1,047	1,428	1,110	1,335	1,614
Other	<u>352</u>	<u>236</u>	<u>628</u>	<u>538</u>	<u>678</u>
Total	<u>1,399</u>	<u>1,664</u>	<u>1,738</u>	<u>1,873</u>	<u>2,292</u>
Percent of Occupancy (Acute and Swing-bed)	<u>15.3</u>	<u>12.7</u>	<u>13.2</u>	<u>14.3</u>	<u>17.4</u>
Medicare Percent (Acute and Swing-bed)	<u>74.8</u>	<u>85.8</u>	<u>63.9</u>	<u>71.3</u>	<u>70.4</u>
Discharges (Acute and Swing-bed)					
Medicare	219	333	281	271	367
Other	<u>174</u>	<u>102</u>	<u>241</u>	<u>230</u>	<u>286</u>
Total	<u>393</u>	<u>435</u>	<u>522</u>	<u>501</u>	<u>653</u>
Average Length of Stay (Acute and Swing-bed)					
Medicare	4.8	4.3	4	4.9	4.4
Other	2.0	2.3	2.6	2.3	2.4
Overall	3.6	3.8	3.3	3.7	3.5