

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

Financial Statements

Years Ended December 31, 2019 and 2018

(Together With Independent Auditor's Report)

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

Index

Years Ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Osborne County Memorial Hospital
Osborne, Kansas:

Report on the Financial Statements

We have audited the accompanying statements of financial position of Osborne County Memorial Hospital, a component unit of Osborne County, Kansas, as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise Osborne County Memorial Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

(Continued)

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

Opinion

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

Emphasis of Matter Regarding Component Unit Reporting

As discussed in note 1, the financial statements present only the financial information of Osborne County Memorial Hospital and do not purport to, and do not, present fairly the financial position of Osborne County as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
July 9, 2020

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

Statements of Financial Position

December 31, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 670,567	904,706
Patient accounts receivable, net of contractual adjustments and estimated uncollectibles of \$643,120 in 2019 and \$548,217 in 2018	727,183	979,427
Other receivables	67,952	77,550
Taxes receivable	90,425	101,579
Supplies inventory	161,511	139,479
Prepaid expenses	52,502	31,183
Estimated third-party payor settlements	<u>413,848</u>	<u>4,875</u>
Total current assets	<u>2,183,988</u>	<u>2,238,799</u>
Assets whose use is limited or restricted:		
Restricted by donors or grantors	280,496	146,027
Interest in assets at Greater Salina Community Foundation	<u>13,060</u>	<u>10,739</u>
Total assets whose use is limited or restricted	<u>293,556</u>	<u>156,766</u>
Capital assets	4,493,564	4,481,029
Less accumulated depreciation	<u>3,876,714</u>	<u>3,753,795</u>
Net capital assets	<u>616,850</u>	<u>727,234</u>
	<u>\$ 3,094,394</u>	<u>3,122,799</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current maturities of capital lease obligation	\$ 2,807	2,592
Accounts payable and payroll withholding	104,776	85,892
Accrued expenses - salaries, wages and benefits	543,393	432,493
Estimated third-party payor settlements	-	514,976
Total current liabilities	<u>650,976</u>	<u>1,035,953</u>
Capital lease obligation, excluding current maturities	<u>3,167</u>	<u>5,974</u>
Total liabilities	<u>654,143</u>	<u>1,041,927</u>
Net position:		
Net investment in capital assets	610,876	718,668
Restricted - expendable for capital assets	207,012	146,027
Restricted - specific operating activities	73,484	-
Unrestricted	<u>1,548,879</u>	<u>1,216,177</u>
Total net position	2,440,251	2,080,872
	<u>\$ 3,094,394</u>	<u>3,122,799</u>

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne 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	\$ 5,381,913	4,976,779
Provision for uncollectible accounts	<u>(183,790)</u>	<u>(160,433)</u>
Net patient service revenue, less provision for uncollectible accounts	5,198,123	4,816,346
Other operating revenue	<u>571,734</u>	<u>243,555</u>
Total operating revenues	<u>5,769,857</u>	<u>5,059,901</u>
Operating expenses:		
Salaries and wages	3,295,353	2,703,614
Employee benefits	641,634	545,333
Supplies and other	2,427,841	2,324,754
Depreciation	<u>122,919</u>	<u>147,695</u>
Total operating expenses	<u>6,487,747</u>	<u>5,721,396</u>
Operating loss	<u>(717,890)</u>	<u>(661,495)</u>
Nonoperating revenues and expenses:		
Noncapital appropriations - Osborne County	843,396	841,006
Interest income	7,190	4,342
Interest expense	(8,912)	(13,529)
Noncapital grants and contributions	<u>161,672</u>	<u>12,287</u>
Total nonoperating revenues and expenses	<u>1,003,346</u>	<u>844,106</u>
Revenues in excess of expenses	285,456	182,611
Capital grants and contributions	<u>73,923</u>	<u>1,835</u>
Increase in net assets	359,379	184,446
Net position, beginning of year	<u>2,080,872</u>	<u>1,896,426</u>
Net position, end of year	<u>\$ 2,440,251</u>	<u>2,080,872</u>

See accompanying notes to financial statements.

OSBORNE COUNTY MEMORIAL HOSPITAL
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Statements of Cash Flows

Years Ended December 31, 2019 and 2018

<u>Increase or Decrease in Cash</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received:		
Patients and third-party payors	\$ 4,526,418	5,311,448
Other receipts, net	571,734	243,555
Cash paid to employees	(3,826,087)	(3,282,340)
Cash paid to suppliers and contractors	<u>(2,442,710)</u>	<u>(2,652,902)</u>
Net cash used by operating activities	<u>(1,170,645)</u>	<u>(380,239)</u>
Cash flows from noncapital financing activities:		
Noncapital appropriations - Osborne County	854,550	826,182
Noncapital grants and contributions received	161,672	12,287
Interest payments on trade payables	<u>(8,331)</u>	<u>(12,809)</u>
Net cash provided by noncapital financing activities	<u>1,007,891</u>	<u>825,660</u>
Cash flows from capital and related financing activities:		
Capital grants and gifts	73,923	1,835
Capital expenditures	(12,535)	(245,769)
Principal payments on capital lease obligation	(2,592)	(2,393)
Interest paid on capital lease obligation	<u>(581)</u>	<u>(720)</u>
Net cash provided (used) by capital and related financing activities	<u>58,215</u>	<u>(247,047)</u>
Cash flows from investing activities, interest income received		
activities, interest income received	<u>4,869</u>	<u>5,144</u>
Net increase (decrease) in cash and cash equivalents	(99,670)	203,518
Cash, beginning of year	<u>1,050,733</u>	<u>847,215</u>
Cash, end of year	<u>\$ 951,063</u>	<u>1,050,733</u>
Reconciliation of cash to the statements of financial position:		
Cash	\$ 670,567	904,706
Cash in noncurrent assets	<u>280,496</u>	<u>146,027</u>
Total cash	<u>\$ 951,063</u>	<u>1,050,733</u>

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

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

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2019</u>	<u>2018</u>
Operating loss	\$ (717,890)	(661,495)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	122,919	147,695
Provision for uncollectible accounts	183,790	160,433
Decrease (increase) in:		
Patient accounts receivable	68,454	(145,116)
Other receivables	9,598	73,463
Supplies inventories	(22,032)	53,101
Prepaid expenses	(21,319)	2,438
Estimated third-party payor settlements	(923,949)	479,785
Increase (decrease) in:		
Accounts payable and payroll withholding	18,884	(457,150)
Accrued expenses - salaries, wages and benefits	<u>110,900</u>	<u>(33,393)</u>
Net cash used by operating activities	<u>\$ (1,170,645)</u>	<u>(380,239)</u>

See accompanying notes to financial statements.

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

December 31, 2019 and 2018

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Osborne County Memorial Hospital (the Hospital) is located in Osborne, Kansas. The Hospital is a component unit of Osborne County, Kansas (the County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Osborne County area.

Basis of accounting and presentation

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

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code.

Use of estimates

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

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OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

Cash and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2019 and 2018.

Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for doubtful accounts for uninsured/self-pay patients was \$350,000 at both December 31, 2019 and 2018, as the total amount of self-pay accounts receivable remained very similar to the prior year-end.

Supplies inventory

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

Assets whose use is limited or restricted:

Assets whose use is limited or restricted include (1) assets restricted by donors for capital acquisitions and specific operating activities, (2) assets set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, and (3) interest in assets at Greater Salina Community Foundation (note 5). Assets whose use is limited or restricted consist primarily of money market accounts.

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OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

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 Hospital:

	<u>Life in Years</u>
Land improvements	10-25
Buildings	20-40
Fixed equipment	5-20
Moveable equipment	<u>5-20</u>

Compensated absences

Hospital 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 are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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.

Net position

Net position of the Hospital is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. The *restricted expendable* component consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The *unrestricted* net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

Net patient service revenue

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

Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital estimates the cost associated with providing services under its charity care policy were \$15,765 and \$3,939 for the years ended December 31, 2019 and 2018, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs plus interest expense divided by gross operating revenue) to the gross charges forgone under its charity care policy.

Noncapital appropriations - Osborne County

The Hospital received approximately 13% and 14% of its financial support in 2019 and 2018, respectively, from noncapital appropriations from the County's property tax levy and 1% sales tax revenue.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes and 1% sales taxes is recognized in the year for which the taxes are levied.

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted net position balances.

Risk management

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

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OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

(2) Net Patient Service Revenue

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

- **Medicare:** The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care and skilled swing-bed and most outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of actual cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules. 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 (MAC). The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2018.

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

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

The Hospital has been carrying a liability of \$104,976 in its third-party payor estimates associated with a 2011 DSH payment that had been received from the State of Kansas. During 2019, the Hospital determined the State of Kansas requesting a repayment of this amount to be remote and removed the liability from its third-party payor estimates. The impact of removing this liability resulted in current year net patient service revenue increasing by \$104,976.

Approximately 72% and 66% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

Net patient service revenue consists of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Net patient service revenue:		
Gross patient service revenue:		
Medicare	\$ 3,845,247	3,789,343
Medicaid	450,203	355,589
Commercial insurance and other	1,962,759	1,918,428
Uninsured/self-pay	166,384	162,726
Charity care deductions	<u>(16,978)</u>	<u>(4,444)</u>
Gross patient service revenue (after charity care)	<u>6,407,615</u>	<u>6,221,642</u>
Contractual adjustments:		
Medicare	(440,098)	(656,891)
Medicaid	(2,211)	(197,175)
Commercial insurance and other	<u>(583,393)</u>	<u>(390,797)</u>
Total contractual adjustments	<u>(1,025,702)</u>	<u>(1,244,863)</u>
Net patient revenue	5,381,913	4,976,779
Provision for bad debts	<u>(183,790)</u>	<u>(160,433)</u>
Net patient service revenue, less provision for bad debts	<u>\$ 5,198,123</u>	<u>4,816,346</u>

(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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

At December 31, 2019 and 2018, \$435,681 and \$624,607 of the Hospital's bank balances of \$1,001,265 and \$1,141,212, respectively, were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ -	18,009
Uninsured but collateralized with securities held by pledging financial institution's trust department or agent in the Hospital's name	<u>435,681</u>	<u>606,598</u>
	<u>\$ 435,681</u>	<u>624,607</u>

The carrying amounts of deposits shown above are included in the balance sheet as follows:

	<u>2019</u>	<u>2018</u>
Carrying value, deposits	\$ <u>951,063</u>	<u>1,050,733</u>
Included in the following balance sheet captions:		
Cash in current assets	\$ 670,567	904,706
Restricted by donors	<u>280,496</u>	<u>146,027</u>
	<u>\$ 951,063</u>	<u>1,050,733</u>

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

(4) Patient Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and insured under third-party payor agreements.

Patient accounts receivable at December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Receivable from:		
Medicare	\$ 596,180	671,882
Medicaid	116,799	91,247
Self-pay	287,596	304,083
Blue Cross	231,677	255,505
Other third-party payers	<u>138,051</u>	<u>204,927</u>
Total patient accounts receivable	<u>1,370,303</u>	<u>1,527,644</u>
Allowances for:		
Contractual adjustments	293,120	198,217
Uncollectible accounts	<u>350,000</u>	<u>350,000</u>
Total allowances	<u>643,120</u>	<u>548,217</u>
Net patient accounts receivable	<u>\$ 727,183</u>	<u>979,427</u>

(5) Interest in Assets at Greater Salina Community Foundation

The Hospital entered into an Organization Fund Agreement in 2012 with the Greater Salina Community Foundation (the Foundation). Changes in the beneficial interest in those assets are included in nonoperating revenue as investment income. For the year ended December 31, 2019, the account experienced a net increase of \$2,321 and for the year ended December 31, 2018, the account experienced a net decrease of \$802.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

(6) Capital Assets

Capital asset activity for the years ended December 31 was:

	<u>2018</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2019</u>
<u>Historical costs</u>				
Land improvements	\$ 77,937	-	-	77,937
Buildings	1,296,911	-	-	1,296,911
Fixed equipment	573,241	-	-	573,241
Moveable equipment	2,348,977	12,535	-	2,361,512
Construction in progress - not depreciated	<u>183,963</u>	<u>-</u>	<u>-</u>	<u>183,963</u>
Total historical costs	<u>4,481,029</u>	<u>12,535</u>	<u>-</u>	<u>4,493,564</u>
<u>Less accumulated depreciation</u>				
Land improvements	(77,937)	-	-	(77,937)
Buildings	(1,084,899)	(32,708)	-	(1,117,607)
Fixed equipment	(517,679)	(11,849)	-	(529,528)
Moveable equipment	<u>(2,073,280)</u>	<u>(78,362)</u>	<u>-</u>	<u>(2,151,642)</u>
Total accumulated depreciation	<u>(3,753,795)</u>	<u>(122,919)</u>	<u>-</u>	<u>(3,876,714)</u>
Net capital assets	<u>\$ 727,234</u>	<u>(110,384)</u>	<u>-</u>	<u>616,850</u>

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
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Notes to Financial Statements

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land improvements	\$ 77,937	-	-	77,937
Buildings	1,296,911	-	-	1,296,911
Fixed equipment	573,241	-	-	573,241
Moveable equipment	2,266,817	122,111	(39,951)	2,348,977
Construction in progress - not depreciated	<u>99,497</u>	<u>84,466</u>	<u>-</u>	<u>183,963</u>
Total historical costs	<u>4,314,403</u>	<u>206,577</u>	<u>(39,951)</u>	<u>4,481,029</u>
<u>Less accumulated depreciation</u>				
Land improvements	(77,937)	-	-	(77,937)
Buildings	(1,051,925)	(32,974)	-	(1,084,899)
Fixed equipment	(493,687)	(23,992)	-	(517,679)
Moveable equipment	<u>(2,022,502)</u>	<u>(90,729)</u>	<u>39,951</u>	<u>(2,073,280)</u>
Total accumulated depreciation	<u>(3,646,051)</u>	<u>(147,695)</u>	<u>39,951</u>	<u>(3,753,795)</u>
Net capital assets	<u>\$ 668,352</u>	<u>58,882</u>	<u>-</u>	<u>727,234</u>

Construction in progress at December 31, 2019 and 2018 consists of architect and related initial costs associated with the construction of a new hospital and physician clinic building (the Replacement Facility) to replace the existing hospital building. During 2018, the Hospital made a down-payment of half the cost of a \$124,850 therapy pool to be installed in the Replacement Facility. The total cost of the Replacement Facility project is estimated to be approximately \$18,735,000 with completion expected during calendar year 2020. See note 12 for additional disclosures regarding the funding and accounting associated with the Replacement Facility.

(7) Capital Lease Obligation

Capital lease obligation activity for the years ended December 31 was:

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Current Portion</u>
Capital lease payable	\$ 8,566	<u>-</u>	<u>(2,592)</u>	5,974	<u>2,807</u>
Less current installments	<u>2,592</u>			<u>2,807</u>	
Capital lease obligations, excluding current installments	<u>\$ 5,974</u>			<u>3,167</u>	

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

The \$18,735,000 USDA direct loan is anticipated to carry a fixed interest rate of 3.75% and a 30-year amortization period. Since the underlying USDA direct loan amounts will be issued as general obligation bonds of the County, the actual debt will be recorded as an obligation of the County and not the Hospital. Once the project is complete and ready to be placed in-service, the Hospital anticipates recording a transfer from the County for the final full amount of the cost to construct the building and equipment and will start to depreciate accordingly. The building was completed during April 2020 and Hospital operations were all moved into the new building at that time.

(13) Subsequent Event - Coronavirus Pandemic

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