

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2018 and 2017



Comanche County Hospital
A Component Unit of Comanche County, Kansas
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Comanche County Hospital
Coldwater, Kansas

We have audited the accompanying financial statements of Comanche County Hospital (Hospital), a component unit of Comanche County, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which comprise Comanche County Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comanche County Hospital as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Management has omitted 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 information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
May 16, 2019

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Balance Sheets
December 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>
Current Assets		<i>(As Adjusted)</i>
Cash	\$ 219,230	\$ 9,980
Short-term investments	50,000	100,000
Patient accounts receivable, net of allowance; 2018 – \$193,729; 2017 – \$142,758	639,374	558,515
Estimated amounts due from third-party payers	-	258,000
Supplies	99,378	117,756
Prepaid expenses and other	<u>37,004</u>	<u>58,748</u>
Total current assets	<u>1,044,986</u>	<u>1,102,999</u>
Capital Assets, Net	<u>1,779,459</u>	<u>1,979,642</u>
Total assets	<u>2,824,445</u>	<u>3,082,641</u>
Deferred Outflows of Resources		
Pension	351,567	440,063
Other postemployment benefits	<u>25,919</u>	<u>-</u>
Total deferred outflows of resources	<u>377,486</u>	<u>440,063</u>
Total assets and deferred outflows of resources	<u>\$ 3,201,931</u>	<u>\$ 3,522,704</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		<i>(As Adjusted)</i>
Current maturities of long-term debt	\$ 79,251	\$ 122,977
Accounts payable	133,430	149,109
Accrued salaries and payroll taxes	134,541	120,317
Accrued vacation benefits	214,148	193,165
Estimated amounts due to third-party payers	370,000	-
	<u>931,370</u>	<u>585,568</u>
Long-term Debt	<u>81,229</u>	<u>64,365</u>
Net Pension Liability	<u>1,836,221</u>	<u>1,897,332</u>
Total Other Postemployment Benefits Liability	<u>126,185</u>	<u>100,833</u>
	<u>2,975,005</u>	<u>2,648,098</u>
Deferred Inflows of Resources		
Pension	90,833	118,200
Other postemployment benefits	6,340	4,573
	<u>97,173</u>	<u>122,773</u>
Net Position (Deficit)		
Net investment in capital assets	1,618,979	1,792,300
Unrestricted (deficit)	<u>(1,489,226)</u>	<u>(1,040,467)</u>
	<u>129,753</u>	<u>751,833</u>
	<u>129,753</u>	<u>751,833</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,201,931</u>	<u>\$ 3,522,704</u>

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		<i>(As Adjusted)</i>
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$116,073, 2017 – \$134,203	\$ 4,561,549	\$ 4,420,465
Other	38,028	36,136
Total operating revenues	4,599,577	4,456,601
Operating Expenses		
Salaries and wages	2,696,897	2,629,581
Supplies and other	2,466,516	2,502,880
Depreciation	411,218	413,874
Total operating expenses	5,574,631	5,546,335
Operating Loss	(975,054)	(1,089,734)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Comanche County	342,044	323,500
Investment income	921	1,633
Interest expense	(3,667)	(1,970)
Gain on disposal of capital assets	(784)	-
Noncapital grants and gifts	14,452	20,259
Other	8	1,512
Total nonoperating revenues	352,974	344,934
Decrease in Net Position	(622,080)	(744,800)
Net Position, Beginning of Year, as previously reported	751,833	1,598,081
Change in Accounting Principle - GASB No. 75	-	(101,448)
Net Position, Beginning of Year, as restated	751,833	1,496,633
Net Position, End of Year	\$ 129,753	\$ 751,833

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		<i>(As Adjusted)</i>
Receipts from and on behalf of patients	\$ 5,108,690	\$ 4,355,006
Payments to suppliers and contractors	(2,442,073)	(2,458,080)
Payments to employees	(2,660,472)	(2,621,294)
Other receipts, net	38,028	36,136
Net cash provided by (used in) operating activities	44,173	(688,232)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Comanche County	342,044	323,500
Noncapital grants and gifts	14,452	20,259
Other	8	1,512
Net cash provided by noncapital financing activities	356,504	345,271
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(143,291)	(152,699)
Interest paid on long-term debt	(3,667)	(1,970)
Purchases of capital assets	(95,390)	(5,099)
Net cash used in capital and related financing activities	(242,348)	(159,768)
Cash Flows From Investing Activities		
Interest on investments	921	1,633
Purchases of investments	-	(100,000)
Proceeds from disposition investments	50,000	-
Net cash provided by (used in) investing activities	50,921	(98,367)
Increase (Decrease) in Cash	209,250	(601,096)
Cash, Beginning of Year	9,980	611,076
Cash, End of Year	\$ 219,230	\$ 9,980

Comanche County Hospital
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Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net		<i>(As Adjusted)</i>
Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (975,054)	\$ (1,089,734)
Depreciation	411,218	413,874
Provision for uncollectible accounts	116,073	134,203
Changes in operating assets and liabilities		
Patient accounts receivable	(196,932)	147,877
Estimated amounts due from and to third-party payers	628,000	(347,539)
Supplies	18,378	(15,597)
Prepaid expenses and other	21,744	(1,134)
Accounts payable and accrued expenses	19,528	29,476
Net pension liability	(61,111)	(181,675)
Total other postemployment benefits liability	25,352	(615)
Deferred outflows of resources - pension and OPEB	62,577	156,831
Deferred inflows of resources - pension and OPEB	(25,600)	65,801
Net cash provided by (used in) operating activities	\$ 44,173	\$ (688,232)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 116,429	\$ 67,910

Comanche County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Reporting Entity

Comanche County Hospital (Hospital) is a rural acute care hospital located in Coldwater, Kansas. The Hospital is a component unit of Comanche County (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 Comanche County area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Noncapital Appropriations – Comanche County

The Hospital received approximately 7% in both 2018 and 2017, of its financial support from noncapital appropriations from Comanche County property tax levy.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Comanche County is recognized in full in the year in which use is first permitted.

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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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost.

Investment income includes interest income earned on bank deposits and certificates of deposit.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	20 years
Building	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 30 years

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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. 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.

Capital Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Deferred Outflows of Resources

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

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Defined Benefit Other Postemployment Benefit Plan

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

Deferred Inflows of Resources

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

Net Position

Net position of the Hospital is classified in two components. 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 net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

Charity Care

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

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Income Taxes

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue of \$0 and \$68,776, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended December 31, 2018 and 2017, respectively.

Comanche County Hospital
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Notes to Financial Statements
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Implementation of New Accounting Principle

In 2018, the Hospital implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures by state and local governments for postemployment benefits other than pensions. For defined benefit other postemployment benefit (OPEB) plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In accordance with GASB 75, the December 31, 2017, financial statements were restated to report the adoption of the standard. The effects of the restatement are as follows:

Net position, January 1, 2017, as previously reported	\$ 1,598,081
Total other postemployment benefits liability at January 1, 2017	<u>(101,448)</u>
Net position, January 1, 2017, as restated	<u><u>\$ 1,496,633</u></u>

Decrease in net position for the year ended December 31, 2017, was increased by \$3,958. Total other postemployment benefits liability and deferred inflows of resources were also recorded at December 31, 2017, as described in *Note 10*.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain 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.

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Approximately 85% and 83% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

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

At December 31, 2018 and 2017, respectively, none of the Hospital's bank balances of \$252,267 and \$134,326 were exposed to custodial credit risk:

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 269,230	\$ 109,980
Included in the following balance sheet captions		
Cash	\$ 219,230	\$ 9,980
Short-term investments	50,000	100,000
	\$ 269,230	\$ 109,980

Comanche County Hospital
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Notes to Financial Statements

December 31, 2018 and 2017

Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	\$ 485,144	\$ 366,720
Medicaid	1,742	505
Blue Cross	22,891	61,453
Other third-party payers	68,067	78,055
Patients	255,259	194,540
	833,103	701,273
Less allowance for uncollectible accounts	193,729	142,758
	\$ 639,374	\$ 558,515

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 44,430	\$ -	\$ -	\$ -	\$ 44,430
Land improvements	128,243	-	-	-	128,243
Building	4,019,266	-	(10,850)	-	4,008,416
Fixed equipment	446,623	-	-	-	446,623
Major moveable equipment	2,417,405	211,819	(358,466)	-	2,270,758
Construction in progress	-	-	-	-	-
	7,055,967	211,819	(369,316)	-	6,898,470
Less accumulated depreciation					
Land improvements	90,849	7,487	-	-	98,336
Building	2,530,448	180,208	(10,066)	-	2,700,590
Fixed equipment	329,034	17,004	-	-	346,038
Major moveable equipment	2,125,994	206,519	(358,466)	-	1,974,047
	5,076,325	411,218	(368,532)	-	5,119,011
Capital Assets, Net	\$ 1,979,642	\$ (199,399)	\$ (784)	\$ -	\$ 1,779,459

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	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 44,430	\$ -	\$ -	\$ -	\$ 44,430
Land improvements	128,243	-	-	-	128,243
Building	4,019,266	-	-	-	4,019,266
Fixed equipment	446,623	-	-	-	446,623
Major moveable equipment	2,334,696	73,009	(3,300)	13,000	2,417,405
Construction in progress	13,000	-	-	(13,000)	-
	<u>6,986,258</u>	<u>73,009</u>	<u>(3,300)</u>	<u>-</u>	<u>7,055,967</u>
Less accumulated depreciation					
Land improvements	83,028	7,821	-	-	90,849
Building	2,321,813	208,635	-	-	2,530,448
Fixed equipment	299,937	29,097	-	-	329,034
Major moveable equipment	1,960,973	168,321	(3,300)	-	2,125,994
	<u>4,665,751</u>	<u>413,874</u>	<u>(3,300)</u>	<u>-</u>	<u>5,076,325</u>
Capital Assets, Net	<u>\$ 2,320,507</u>	<u>\$ (340,865)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,979,642</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Comanche County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

Note 7: Long-term Obligations

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 187,342	\$ 116,429	\$ (143,291)	\$ 160,480	\$ 79,251
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 272,131	\$ 67,910	\$ (152,699)	\$ 187,342	\$ 122,977

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2018 and 2017, totaled \$684,339 and \$567,910, respectively, net of accumulated depreciation of \$515,466 and \$373,424, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest of 0.3% to 2.4% together with the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,	
2019	\$ 81,818
2020	32,562
2021	24,734
2022	24,734
2023	2,061
Total minimum lease payments	165,909
Less amount representing interest	5,429
Present value of future minimum lease payments	\$ 160,480

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$23,361 and \$26,051 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
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Note 9: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) plan a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. The KPERS is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System, Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer, defined benefit pension plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

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

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

The Hospital's employees participate in the Local group.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

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Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2018 and 2017, was 8.39% and 8.46% of annual payroll, respectively. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for pensions for the years ended December 31, 2018 and 2017, were \$205,281 and \$196,590, respectively.

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

At December 31, 2018 and 2017, the Hospital reported a liability of \$1,836,221 and \$1,897,332, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2017 and 2016, respectively, rolled forward to June 30, 2018 and 2017, respectively. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2018, the Hospital's proportion was 0.131743%, which was an increase of 0.000753% from its proportion measured as of June 30, 2017, of 0.130990%. At June 30, 2016, the Hospital proportion was 0.134387%.

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For the years ended December 31, 2018 and 2017, the Hospital recognized pension expense of \$206,202 and \$233,730, respectively. At December 31, 2018 and 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,630	\$ 52,030
Net difference between projected and actual earnings on pension plan investments	42,955	-
Changes of assumptions	79,516	8,843
Changes in proportion	117,360	29,960
Hospital's contributions subsequent to the measurement date	105,106	-
Total	\$ 351,567	\$ 90,833
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,177	\$ 65,606
Net difference between projected and actual earnings on pension plan investments	59,517	-
Changes of assumptions	102,179	13,874
Changes in proportion	170,707	38,720
Hospital's contributions subsequent to the measurement date	98,483	-
Total	\$ 440,063	\$ 118,200

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At December 31, 2018, the Hospital reported \$105,106 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions that will be recognized in pension expense as follows:

2019	\$ 116,168
2020	69,914
2021	(27,708)
2022	(2,791)
2023	45
	<hr/>
	<u>\$ 155,628</u>

Actuarial Assumptions

The total pension liability in the December 31, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2018</u>	<u>2017</u>
Inflation	2.75%	2.75%
Salary increases, including inflation	3.5% to 12%	3.5% to 12%
Investment rate of return, net of pension plan investment expense, including inflation	7.75%	7.75%

Mortality rates were based on the RP-2014 Healthy Annuitant Table for males or females, as appropriate with adjustments for mortality improvements based on Scale MP-16 for the December 31, 2017 and 2016, actuarial valuations.

The actuarial assumptions used in the December 31, 2017 and 2016, valuations were based on the results of an actuarial experience study for the three-year period ended December 31, 2015.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Asset Class	2018		2017	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.85%	47%	6.80%
Fixed income	13%	1.25%	13%	1.25%
Yield driven	8%	6.55%	8%	6.55%
Real return	11%	1.71%	11%	1.71%
Real estate	11%	5.05%	11%	5.05%
Alternatives	8%	9.85%	8%	9.85%
Short-term investments	2%	-0.25%	2%	-0.25%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the years ended June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of December 31, 2018:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	\$ 2,693,086	\$ 1,836,221	\$ 1,112,093

Pension Plan Fiduciary Net Position

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

Deferred Compensation Plan

In 2005, the Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$10,400 and \$11,325 for the years ended December 31, 2018 and 2017, respectively. The Hospital does not contribute to the 457(b) plan.

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A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Note 10: Other Postemployment Benefit Plan

Plan Description

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a board of trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS's governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The OPEB Plan provides LTD and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever first occurs. Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

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

	2018	2017
Active employees	41	44
Disabled employees	1	1
	42	45

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Total OPEB Liability

The Hospital's total OPEB liability of \$126,185 and \$100,833 was measured as of June 30, 2018 and 2017, for the years ended December 31, 2018 and 2017, respectively, and was determined by actuarial valuations as of December 31, 2017 and 2016, respectively, and rolled forward to June 30, 2018 and 2017, respectively.

The total OPEB liability in the December 31, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Inflation	2.75%	2.75%
Discount rate	3.87%	3.58%
Salary increases, including inflation	3.50% to 10%	3.50% to 10%

The discount rate was based on the Bond Buyer General Obligation 20-Year Municipal Bond Index. The discount rate changed from 2.85% in 2016 to 3.58% in 2017.

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

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2017 Mortality Tables for the December 31, 2016, actuarial valuation.

The actuarial assumptions used in the June 30, 2018 and 2017, valuations were based on the results of an actuarial experience study for 2013 - 2015.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Changes in the Total OPEB Liability

Changes in the total OPEB liability are:

	2018	2017
Balance, beginning of year	\$ 100,833	\$ 101,448
Changes for the year:		
Service cost	9,261	9,807
Interest	3,695	3,052
Differences between expected and actual experience	28,902	-
Changes of assumptions	(2,558)	(5,100)
Benefit payments	(13,948)	(8,374)
Net changes	<u>25,352</u>	<u>(615)</u>
Balance, end of year	<u>\$ 126,185</u>	<u>\$ 100,833</u>

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

The total OPEB liability of the Hospital, at December 31, 2018, has been calculated using a discount rate of 3.87%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2018 discount rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Hospital's total OPEB liability	\$ 135,331	\$ 126,185	\$ 117,932

The total OPEB liability of the Hospital, at December 31, 2017, has been calculated using a discount rate of 3.58%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2017 discount rate.

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Hospital's total OPEB liability	\$ 107,884	\$ 100,833	\$ 94,439

Comanche County Hospital
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Notes to Financial Statements

December 31, 2018 and 2017

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

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

For the years ended December 31, 2018 and 2017, the Hospital recognized OPEB expense of \$15,148 and \$12,332, respectively. At December 31, 2018 and 2017, the Hospital reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,919	\$ -
Changes of assumptions	-	(6,340)
Total	\$ 25,919	\$ (6,340)
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	(4,573)
Total	\$ -	\$ (4,573)

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to OPEB will be recognized in OPEB expense as follows:

2019	\$ 2,192
2020	2,192
2021	2,192
2022	2,192
2023	2,192
Thereafter	8,619
	\$ 19,579

Comanche County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

Note 11: Management Agreement

The Board of Trustees has entered into a management agreement with Great Plains Health Alliance, Inc. The agreement can be cancelled with 60 days' notice. Fees incurred under this agreement were \$83,395 and \$87,123 in 2018 and 2017, respectively. There are \$16,216 and \$7,780 included in accounts payable related to these services at December 31, 2018 and 2017, respectively.

Note 12: Future Change in Accounting Principle

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. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Required Supplementary Information

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

	2018 *	2017 *	2016 *	2015 *
Hospital's proportion of the net pension liability	0.131743%	0.130990%	0.134387%	0.128995%
Hospital's proportionate share of the net pension liability	\$ 1,836,221	\$ 1,897,332	\$ 2,079,007	\$ 1,693,761
Hospital's covered-employee payroll	\$ 2,422,953	\$ 2,361,898	\$ 2,386,770	\$ 2,294,069
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.78%	80.33%	87.11%	73.83%
Plan fiduciary net position as a percentage of the total pension liability	68.88%	67.12%	65.10%	64.95%

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

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

2014 *

0.114391%

\$ 1,407,939

\$ 2,086,199

67.49%

66.60%

Comanche County Hospital
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Schedule of the Hospital's Pension Contributions
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	<u>2018 *</u>	<u>2017 *</u>	<u>2016 *</u>	<u>2015 *</u>
Contractually required contribution	\$ 205,281	\$ 196,590	\$ 212,068	\$ 215,985
Contribution in relation to the contractually required contribution	<u>\$ 205,281</u>	<u>\$ 196,590</u>	<u>\$ 212,068</u>	<u>\$ 215,985</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 2,446,730	\$ 2,320,974	\$ 2,310,107	\$ 2,278,316
Contributions as a percentage of covered-employee payroll	8.39%	8.47%	9.18%	9.48%

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

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

2014 *

\$ 182,240

\$ 182,240

\$ -

\$ 2,010,924

9.06%

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

	<u>2018 *</u>	<u>2017 *</u>
Total OPEB Liability		
Service cost	\$ 9,261	\$ 9,807
Interest	3,695	3,052
Differences between expected and actual experience	28,902	-
Changes in assumptions	(2,558)	(5,100)
Benefit payments	<u>(13,948)</u>	<u>(8,374)</u>
Net Change in Total OPEB Liability	25,352	(615)
Hospital's Total OPEB Liability - Beginning	<u>100,833</u>	<u>101,448</u>
Hospital's Total OPEB Liability - Ending	<u><u>\$ 126,185</u></u>	<u><u>\$ 100,833</u></u>
Hospital's Covered-Employee Payroll	\$ 2,198,821	\$ 2,235,265
Hospital's Total OPEB Liability as a percentage of covered-employee payroll	5.74%	4.51%

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

Changes in assumptions: Discount rate changed from 2.85% for 2016 to 3.58 % for 2017 and to 3.87% for 2018.

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