

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
December 31, 2018 and 2017

Contents

Independent Auditor’s Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Revenues, Expenses and Changes in Net Position 4
Statements of Cash Flows 5
Notes to Financial Statements 7

Independent Auditor's Report

Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas

We have audited the accompanying financial statements of Hodgeman County Health Center, a component unit of Hodgeman County, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Hodgeman County Health Center'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 and the provisions of the Kansas Municipal Audit and Accounting Guide; 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 Hodgeman County Health Center 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.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
February 4, 2021

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Balance Sheets

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 708,486	\$ 813,921
Cash restricted for debt service	-	172,844
Patient accounts receivable, net of allowance; 2018 - \$182,628, 2017 - \$451,016	678,602	1,057,194
Estimated amounts due from third-party payers	709,000	190,000
Supplies	104,102	109,850
Prepaid expenses and other	70,435	108,822
Total current assets	2,270,625	2,452,631
Other Assets		
Cash and certificates of deposit - restricted for debt service	-	204,839
Certificates of deposit	75,513	-
Cash held by County - No Fund Warrants	-	500,000
	75,513	704,839
Capital Assets, Net		
	3,986,625	4,370,987
Total assets	\$ 6,332,763	\$ 7,528,457
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 36,432	\$ 103,557
Accounts payable	405,457	240,743
Accrued expenses	440,182	412,638
Estimated amounts due to third-party payers	-	211,220
Total current liabilities	882,071	968,158
Long-term Debt		
	71,808	131,479
Total liabilities	953,879	1,099,637
Net Position		
Net investment in capital assets	3,878,385	4,135,951
Restricted - expendable for debt service	-	377,683
Unrestricted	1,500,499	1,915,186
Total net position	5,378,884	6,428,820
Total liabilities and net position	\$ 6,332,763	\$ 7,528,457

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

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient service revenue, net of provision (credit) for uncollectible accounts; 2018 (\$225,804), 2017 - \$264,260	\$ 6,864,273	\$ 7,062,337
Bramley Place	116,355	151,127
Other	83,847	49,315
	<u>7,064,475</u>	<u>7,262,779</u>
Operating Expenses		
Salaries and wages	3,545,577	3,812,410
Employee benefits	681,586	726,056
Purchased services and professional fees	2,259,855	1,735,667
Supplies and other	1,459,187	1,652,759
Depreciation	349,997	427,097
	<u>8,296,202</u>	<u>8,353,989</u>
Operating Loss	<u>(1,231,727)</u>	<u>(1,091,210)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Hodgeman County	300,000	300,000
No fund warrants	-	1,500,000
Loss on disposal of capital assets	(118,196)	-
Noncapital contributions and grants	10,606	23,561
Interest income	5,788	3,894
Interest expense	(16,407)	(27,789)
	<u>181,791</u>	<u>1,799,666</u>
Increase (Decrease) in Net Position	(1,049,936)	708,456
Net Position, Beginning of Year	<u>6,428,820</u>	<u>5,720,364</u>
Net Position, End of Year	<u>\$ 5,378,884</u>	<u>\$ 6,428,820</u>

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 6,512,645	\$ 6,472,202
Payments to suppliers and contractors	(3,510,193)	(3,427,128)
Payments to employees	(4,199,619)	(4,571,332)
Other receipts, net	200,202	200,442
Net cash used in operating activities	(996,965)	(1,325,816)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Hodgeman County	300,000	300,000
No fund warrants	500,000	1,000,000
Noncapital contributions and grants received	10,606	23,561
Net cash provided by noncapital financing activities	810,606	1,323,561
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(196,880)	(158,398)
Interest paid on long-term debt	(16,407)	(27,789)
Purchase of capital assets	(13,747)	-
Net cash used in capital and related financing activities	(227,034)	(186,187)
Cash Flows From Investing Activities		
Interest income received	5,449	3,563
Net cash provided by investing activities	5,449	3,563
Decrease in Cash	(407,944)	(184,879)
Cash, Beginning of Year	1,116,430	1,301,309
Cash, End of Year	\$ 708,486	\$ 1,116,430
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 708,486	\$ 813,921
Cash restricted for debt service	-	302,509
Total cash	\$ 708,486	\$ 1,116,430

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,231,727)	\$ (1,091,210)
Depreciation	349,997	427,097
Provision (credit) for uncollectible accounts	(225,804)	264,260
Changes in operating assets and liabilities		
Patient accounts receivable, net	604,396	(465,615)
Estimated amounts due from/to third-party payers	(730,220)	(388,780)
Supplies and prepaid expenses	44,135	(43,912)
Accounts payable and accrued expenses	192,258	(27,656)
Net cash used in operating activities	\$ (996,965)	\$ (1,325,816)
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for capital assets	\$ 70,084	\$ 24,000

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
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

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the county commissioners. The Health Center consists of a hospital, long-term care unit, clinics and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

Basis of Accounting and Presentation

The financial statements of the Health Center 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 (principally tax appropriations) 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 county appropriations, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center 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.

Cash Equivalents

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

Certificates of Deposit

Certificates of deposit are carried at amortized cost. Certificates of deposit with original maturities of less than one year are reported as current assets. Those with original maturities greater than one year are reported as long-term assets.

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

Noncapital Appropriations – Hodgeman County

The Health Center received approximately 4% and 3% of its financial support from the proceeds on noncapital appropriations from Hodgeman County in 2018 and 2017, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by the County and shared with the Health Center for operational purposes. Taxes are assessed by the County in November of one year and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

No Fund Warrants

In November 2017, the County authorized the issuance of \$1,500,000 of No Fund Warrants from the County to the Hospital to provide additional cash to support Hospital operations and pay outstanding accounts payable. \$1,000,000 was distributed to the Hospital on November 20, 2017. The remaining \$500,000 was held by the County at December 31, 2017, and distributed to the Hospital on July 16, 2018. The warrants are general obligations of the County and do not constitute debt obligations of the Hospital.

Risk Management

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

Patient Accounts Receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center 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.

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

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 Health Center:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years

Capital Asset Impairment

The Health Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Compensated Absences

Health Center 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.

Net Position

Net position of the Health Center is classified in three components. Net investments 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. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Health Center, including amounts on deposit as required by the bond indenture. Unrestricted net position is the remaining assets net position that does not meet the definition of net investment in capital assets or restricted net position.

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

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center 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 Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center 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 Health Center is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Note 2: Net Patient Service Revenue

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

Medicare. The hospital is recognized as a CAH and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Health Center is reimbursed for certain services and cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare administrative contractor.

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

Approximately 53% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ended December 31, 2018 and 2017. 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.

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

The Health Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health Center 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 Health Center'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 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, none of the Health Center's deposits (checking and savings accounts and certificates of deposit) were exposed to custodial credit risk.

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 783,299	\$ 1,190,904
Petty cash	700	700
	<u>\$ 783,999</u>	<u>\$ 1,191,604</u>
Included in the following balance sheet captions		
Cash	\$ 708,486	\$ 813,921
Cash restricted for debt service - current	-	172,844
Cash restricted for debt service - noncurrent	-	204,839
Certificates of deposit	75,513	-
	<u>\$ 783,999</u>	<u>\$ 1,191,604</u>

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

Note 4: Patient Accounts Receivable

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

	<u>2018</u>	<u>2017</u>
Medicare	\$ 281,413	\$ 500,575
Medicaid	47,258	17,933
Blue Cross	80,654	51,610
Other third-party payers	48,174	349,339
Self-pay	<u>403,731</u>	<u>588,753</u>
	861,230	1,508,210
Less allowance for uncollectible accounts	<u>182,628</u>	<u>451,016</u>
Patient accounts receivable, net	<u>\$ 678,602</u>	<u>\$ 1,057,194</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	<u>2018</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land improvements	\$ 87,113	\$ -	\$ -	\$ -	\$ 87,113
Buildings	7,192,446	-	-	-	7,192,446
Fixed equipment	897,969	7,795	-	-	905,764
Moveable equipment	<u>2,228,555</u>	<u>76,036</u>	<u>(985,605)</u>	<u>-</u>	<u>1,318,986</u>
	10,406,083	83,831	(985,605)	-	9,504,309
Less accumulated depreciation					
Land improvements	61,604	2,712	-	-	64,316
Buildings	3,311,296	199,550	-	-	3,510,846
Fixed equipment	797,810	10,932	-	-	808,742
Moveable equipment	<u>1,864,386</u>	<u>136,803</u>	<u>(867,409)</u>	<u>-</u>	<u>1,133,780</u>
	6,035,096	349,997	(867,409)	-	5,517,684
Capital assets, net	<u>\$4,370,987</u>	<u>\$ (266,166)</u>	<u>\$ (118,196)</u>	<u>\$ -</u>	<u>\$3,986,625</u>

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

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land improvements	\$ 87,113	\$ -	\$ -	\$ -	\$ 87,113
Buildings	7,192,446	-	-	-	7,192,446
Fixed equipment	897,969	-	-	-	897,969
Moveable equipment	2,204,555	24,000	-	-	2,228,555
	<u>10,382,083</u>	<u>24,000</u>	<u>-</u>	<u>-</u>	<u>10,406,083</u>
Less accumulated depreciation					
Land improvements	58,873	2,731	-	-	61,604
Buildings	3,111,747	199,549	-	-	3,311,296
Fixed equipment	717,546	80,264	-	-	797,810
Moveable equipment	1,719,833	144,553	-	-	1,864,386
	<u>5,607,999</u>	<u>427,097</u>	<u>-</u>	<u>-</u>	<u>6,035,096</u>
Capital assets, net	<u>\$4,774,084</u>	<u>\$ (403,097)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,370,987</u>

Note 6: Medical Malpractice Coverage and Claims

The Health Center 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 Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 7: Long-term Debt

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 175,000	\$ -	\$ 175,000	\$ -	\$ -
Capital lease obligations	60,036	70,084	21,880	108,240	36,432
Total long-term debt	<u>\$ 235,036</u>	<u>\$ 70,084</u>	<u>\$ 196,880</u>	<u>\$ 108,240</u>	<u>\$ 36,432</u>

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 255,000	\$ -	\$ 80,000	\$ 175,000	\$ 85,000
Capital lease obligations	114,434	24,000	78,398	60,036	18,557
Total long-term debt	<u>\$ 369,434</u>	<u>\$ 24,000</u>	<u>\$ 158,398</u>	<u>\$ 235,036</u>	<u>\$ 103,557</u>

Revenue Bonds Payable

Revenue bonds payable consists of Limited Care Residential Facility Revenue Bonds (Bonds) in the original amount of \$1,100,000 dated March 1, 1999, with variable interest rates. The Bonds were payable in annual installments of principal and interest and were paid in full in 2018. The Bonds were payable solely from the net revenues of the Health Center and cash and certificates of deposit restricted for debt service. The Bonds do not constitute a general obligation of the County.

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2018 and 2017, follows:

	2018	2017
Movable equipment	\$ 173,096	\$ 103,000
Less accumulated depreciation	(49,630)	(32,376)
	<u>\$ 123,466</u>	<u>\$ 70,624</u>

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

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 3.02% to 7.92% together with the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,	
2019	\$ 40,209
2020	26,705
2021	19,234
2022	15,120
2023	<u>15,069</u>
Total minimum lease payments	116,337
Less amount representing interest	<u>8,097</u>
Present value of future minimum lease payments	<u><u>\$ 108,240</u></u>

Note 8: Defined Contribution Plan

The Health Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death 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 Health Center’s governing body. The Health Center’s contribution rate was 3% for both 2018 and 2017. Contributions actually made by plan members and the Health Center aggregated \$151,768 and \$66,782 for 2018 and \$135,770 and \$66,014 for 2017, respectively.

Note 9: Future Change in Accounting Principle

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.

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

Certain provisions of GASB 84 related to financial burden criteria have been amended by GASB 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* and are effective immediately. Defined contribution plans are not exempt based on financial burden criteria.

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

Note 10: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 6*.

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

Litigation

In the normal course of business, the Health Center is, from time to time, subject to allocations that may or do result in litigation. The Health Center 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: 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 Health Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 11, 2020, the Health Center received \$218,960 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 Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain the stimulus payments.

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

On May 5, 2020, the Health Center 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 \$766,500 at 1.00% interest with a 2-year maturity. With the passing of the *Paycheck Protection Program Flexibility Act of 2020*, PPP loans entered into before June 5, 2020, could be modified to reflect a 5-year maturity by agreement with the lender and borrower. 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.

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

The Health Center received additional stimulus funds from HHS as follows:

May 7, 2020	\$3,091,121
May 21, 2020	\$98,923

Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

Subsequent events have been evaluated through February 4, 2021, which is the date the financial statements were available to be issued.