

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

**Wichita County Health Center**  
**A Component Unit of Wichita County, Kansas**  
**December 31, 2019 and 2018**

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## Independent Auditor's Report

Board of Trustees  
Wichita County Health Center  
Leoti, Kansas

We have audited the accompanying financial statements of Wichita County Health Center, a component unit of Wichita County, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Wichita 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; 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 Wichita County Health Center as of December 31, 2019 and 2018, 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 the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*BKD, LLP*

Wichita, Kansas  
June 23, 2020

**Wichita County Health Center**  
**A Component Unit of Wichita County, Kansas**  
**Balance Sheets**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 459,771	\$ 458,419
Patient accounts receivable, net of allowance; 2019 – \$2,998; 2018 – \$16,265	762,384	574,224
Estimated amounts due from third-party payers	120,000	310,000
Other receivables	137,700	169,242
Supplies	196,131	190,523
Prepaid expenses and other	6,388	6,941
Total current assets	1,682,374	1,709,349
<b>Capital Assets, Net</b>		
	2,214,027	1,900,251
Total assets	\$ 3,896,401	\$ 3,609,600
 <b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 157,691	\$ 134,519
Note payable to bank	7,794	242,207
Accounts payable	764,340	1,007,403
Accrued expenses	578,668	517,722
Total current liabilities	1,508,493	1,901,851
<b>Long-term Debt</b>		
	958,298	362,318
Total liabilities	2,466,791	2,264,169
<b>Net Position</b>		
Net investment in capital assets	1,090,244	1,311,207
Unrestricted	339,366	34,224
Total net position	1,429,610	1,345,431
Total liabilities and net position	\$ 3,896,401	\$ 3,609,600

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

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$86,737; 2018 – \$196,002	\$ 7,057,192	\$ 6,572,073
Other	588,244	739,130
	7,645,436	7,311,203
<b>Operating Expenses</b>		
Salaries and wages	4,458,618	3,725,112
Employee benefits	1,014,305	884,455
Purchased services and professional fees	1,751,831	2,386,667
Supplies and other	1,468,345	1,526,392
Depreciation	338,990	350,568
	9,032,089	8,873,194
	<b>(1,386,653)</b>	<b>(1,561,991)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital appropriations - Wichita County	1,407,691	1,380,964
Noncapital grants and gifts	89,222	114,005
Reimbursement from County	6,928	9,033
Interest income	10,798	11,238
Interest expense	(43,807)	(28,033)
	1,470,832	1,487,207
<b>Increase (Decrease) in Net Position</b>	84,179	(74,784)
<b>Net Position, Beginning of Year</b>	1,345,431	1,420,215
<b>Net Position, End of Year</b>	\$ 1,429,610	\$ 1,345,431

**Wichita County Health Center**  
**A Component Unit of Wichita County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from and on behalf of patients	\$ 7,059,032	\$ 6,004,163
Payments to suppliers	(4,473,766)	(4,336,368)
Payments to employees	(4,397,672)	(3,701,716)
Other receipts, net	620,339	737,083
	<u>(1,192,067)</u>	<u>(1,296,838)</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Noncapital appropriations - Wichita County	1,407,691	1,380,964
Noncapital grants and gifts	89,222	114,005
Reimbursement from County	6,928	9,033
	<u>1,503,841</u>	<u>1,504,002</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from issuance of notes payable to bank	675,524	234,476
Proceeds from issuance of long-term debt	760,000	-
Principal paid on notes payable to bank	(917,362)	(7,350)
Principal paid on long-term debt	(133,423)	(155,179)
Interest paid on notes payable to bank and long-term debt	(43,807)	(28,033)
Purchases of capital assets	(662,152)	(121,342)
	<u>(321,220)</u>	<u>(77,428)</u>
<b>Cash Flows From Investing Activities</b>		
Interest income	10,798	11,238
	<u>10,798</u>	<u>11,238</u>
<b>Increase in Cash</b>	1,352	140,974
<b>Cash, Beginning of Year</b>	<u>458,419</u>	<u>317,445</u>
<b>Cash, End of Year</b>	<u>\$ 459,771</u>	<u>\$ 458,419</u>

**Wichita County Health Center**  
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**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (1,386,653)	\$ (1,561,991)
Depreciation	338,990	350,568
Provision for uncollectible accounts	86,737	196,002
Changes in operating assets and liabilities		
Patient accounts receivable, net	(274,897)	65,088
Estimated amounts due from and to third-party payers	190,000	(829,000)
Other receivables	31,542	(10,944)
Supplies	(5,608)	(13,027)
Prepaid expenses and other	553	8,897
Accounts payable and accrued expenses	(172,731)	497,569
	<u>\$ (1,192,067)</u>	<u>\$ (1,296,838)</u>
<b>Net cash used in operating activities</b>		
	<u>\$ (1,192,067)</u>	<u>\$ (1,296,838)</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Capital lease obligations incurred for capital assets	\$ -	\$ 104,398
Capital asset additions included in accounts payable	\$ -	\$ 9,386



**Wichita County Health Center**  
**A Component Unit of Wichita County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

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

***Nature of Operations and Reporting Entity***

Wichita County Health Center (Health Center) is an acute care hospital located in Leoti, Kansas. The Health Center is considered a component unit of Wichita County. The Health Center is governed by an elected Board of Trustees. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services. The Health Center also provides long-term care and clinic services. The long-term care facility is doing business as Golden Acres.

***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 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, 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 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 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.

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**December 31, 2019 and 2018**

***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.

***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	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 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. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

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***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.

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

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

***Net Position***

Net position of the Health Center is classified in two components on its balance sheets.

- 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.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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***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. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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.

***Noncapital Appropriations – Wichita County***

The Health Center received approximately 15% and 16% of its 2019 and 2018, respectively, financial support from noncapital appropriations from Wichita County property tax levy and special sales tax support.

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

***Income Taxes***

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

**Note 2: 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.

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

At December 31, 2019 and 2018, respectively, \$241,319 and \$266,654 of the Health Center's bank balances of \$491,319 and \$516,654 were exposed to custodial credit risk as follows:

	<b>2019</b>	<b>2018</b>
Collateral held by pledging financial institution's trust department or agent in other than the Health Center's name	\$ 241,319	\$ 266,654

**Note 3: Patient Accounts Receivable**

The Health Center 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:

	<b>2019</b>	<b>2018</b>
Medicare	\$ 560,409	\$ 324,657
Medicaid	20,281	27,954
Other third-party payers	78,380	151,110
Self-pay	106,312	86,768
	765,382	590,489
Less allowance for uncollectible accounts	(2,998)	(16,265)
	\$ 762,384	\$ 574,224

**Wichita County Health Center**  
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**Note 4: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2019</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land	\$ 7,950	\$ -	\$ -	\$ -	\$ 7,950
Land improvements	186,031	-	-	-	186,031
Buildings	4,129,724	-	-	439,314	4,569,038
Fixed equipment	1,371,410	-	-	321,712	1,693,122
Major moveable equipment	1,834,505	22,468	-	-	1,856,973
Construction in progress	130,728	630,298	-	(761,026)	-
	<u>7,660,348</u>	<u>652,766</u>	<u>-</u>	<u>-</u>	<u>8,313,114</u>
Less accumulated depreciation					
Land improvements	176,211	6,388	-	-	182,599
Buildings	3,093,666	136,223	-	-	3,229,889
Fixed equipment	1,157,484	40,212	-	-	1,197,696
Major moveable equipment	1,332,736	156,167	-	-	1,488,903
	<u>5,760,097</u>	<u>338,990</u>	<u>-</u>	<u>-</u>	<u>6,099,087</u>
Capital Assets, Net	<u>\$ 1,900,251</u>	<u>\$ 313,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,214,027</u>

**Wichita County Health Center**  
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	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 7,950	\$ -	\$ -	\$ -	\$ 7,950
Land improvements	186,031	-	-	-	186,031
Buildings	4,129,724	-	-	-	4,129,724
Fixed equipment	1,371,410	-	-	-	1,371,410
Major moveable equipment	1,809,541	104,398	(79,434)	-	1,834,505
Construction in progress	-	130,728	-	-	130,728
	<u>7,504,656</u>	<u>235,126</u>	<u>(79,434)</u>	<u>-</u>	<u>7,660,348</u>
Less accumulated depreciation					
Land improvements	169,047	7,164	-	-	176,211
Buildings	2,964,721	128,945	-	-	3,093,666
Fixed equipment	1,125,032	32,452	-	-	1,157,484
Major moveable equipment	1,230,163	182,007	(79,434)	-	1,332,736
	<u>5,488,963</u>	<u>350,568</u>	<u>(79,434)</u>	<u>-</u>	<u>5,760,097</u>
Capital Assets, Net	<u>\$ 2,015,693</u>	<u>\$ (115,442)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,900,251</u>

**Note 5: Long-term Obligations**

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

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Revolving bank line of credit	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ -
Notes payable to bank	149,579	675,524	767,362	57,741	7,794
Revenue bonds payable Series 2019	-	760,000	-	760,000	26,874
Capital lease obligations	439,465	-	133,423	306,042	130,817
	<u>\$ 739,044</u>	<u>\$ 1,435,524</u>	<u>\$ 1,050,785</u>	<u>\$ 1,123,783</u>	<u>\$ 165,485</u>

**Wichita County Health Center**  
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	2018				
	Beginning Balance	Additions	Deduction	Ending Balance	Current Portion
Revolving bank line of credit	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 150,000
Notes payable to bank	72,453	84,476	7,350	149,579	92,207
Capital lease obligations	490,246	104,398	155,179	439,465	134,519
	\$ 562,699	\$ 338,874	\$ 162,529	\$ 739,044	\$ 376,726

***Revolving Bank Line of Credit***

The Health Center has a \$150,000 revolving bank line of credit that expired June 1, 2020. At December 31, 2019 and 2018, there was \$0 and \$150,000, respectively, borrowed against this line. The line is collateralized by substantially all of the Health Center's assets. Interest varies with the bank's prime rate plus a margin, which was 5.75% on December 31, 2019, and is payable monthly. Management terminated the line of credit on the maturity date.

***Notes Payable to Bank***

The Health Center has a note payable to bank. The note payable to bank is due February 15, 2026, with principal payable monthly and interest at prime plus 2% payable monthly. The note is secured by certain capital assets.

***Hospital Revenue Bonds – Series 2019***

The Series 2019 Hospital Revenue Bonds payable consist of bonds in the original amount of \$760,000 dated July 24, 2019, which bear interest at 3.50%. The bonds are payable in annual installments through July 24, 2039. The bonds are secured by the net revenues of the Health Center. Proceeds from the issuance of these bonds were used to pay project costs related to capital expenditures.



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**Debt Service Requirements**

The debt service requirements on long-term debt other than capital lease obligations as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Bonds		Notes Payable	
		Principal	Interest	Principal	Interest
2020	\$ 64,977	\$ 26,874	\$ 26,600	\$ 7,794	\$ 3,709
2021	64,978	27,815	25,659	8,345	3,159
2022	64,979	28,789	24,686	8,934	2,570
2023	64,973	29,796	23,678	9,565	1,934
2024	64,978	30,839	22,635	10,240	1,264
2025-2029	280,792	171,161	96,211	12,863	557
2030-2034	267,372	203,286	64,086	-	-
2035-2039	267,373	241,440	25,933	-	-
	<u>\$ 1,140,422</u>	<u>\$ 760,000</u>	<u>\$ 309,488</u>	<u>\$ 57,741</u>	<u>\$ 13,193</u>

**Capital Lease Obligations**

The Health Center is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Property and equipment include the following property under capital leases at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 666,060	\$ 717,910
Less accumulated depreciation	<u>370,464</u>	<u>288,548</u>
	<u>\$ 295,596</u>	<u>\$ 429,362</u>

**Wichita County Health Center**  
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The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.95% together with the present value of the future minimum lease payments as of December 31, 2019:

	<b>Year Ending December 31,</b>
2020	\$ 139,428
2021	112,428
2022	67,701
Total minimum lease payments	319,557
Less amount representing interest	13,515
Present value of future minimum lease payments	\$ 306,042

**Note 6: Professional Liability Coverage and Claims**

The Health Center purchases professional liability 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 professional liability 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 near term.

**Note 7: 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 Health Center 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 Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare administrative contractor.

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*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 86% and 84% of net patient service revenues 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 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 Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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 8: Charity Care**

The costs of charity care provided under the Hospital's charity care policy were approximately \$29,000 and \$28,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Note 9: 340B Drug Pricing Program**

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of \$417,524 and \$574,396 for the years ending December 31, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Health Center recorded expenses related to the 340B Program of \$151,166 and \$250,551 for the years ending December 31, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. The 340B Program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

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**Note 10: Pension Plans**

The Health Center maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Health Center are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Health Center which are not vested will be returned to the Health Center. Contributions actually made by plan members and the Health Center aggregated \$97,664 and \$149,119 during 2019 and \$91,868 and \$118,550 during 2018, respectively.

The Health Center provides one additional defined contribution plan (457 plan). Contributions made by plan members totaled \$36,541 and \$39,350 during 2019 and 2018, respectively. The Health Center does not make contributions to the 457 plan. The plan year begins on January 1 and ends December 31.

**Note 11: Reimbursement from County**

Reimbursements of \$6,928 and \$9,033 for 2019 and 2018, respectively, represent reimbursement of compensation paid to a case manager employed by the Health Center.

**Note 12: Subsequent Events**

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

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*, as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contains provisions expanding the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Health Center was able to request up to 125% of the Medicare payment amount for a six-month period. On April 16, 2020, the Health Center received approximately \$2,212,000 as part of this program. The Health Center will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative

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Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Health Center. The Health Center's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Health Center and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is not paid in full, the Centers for Medicare and Medicaid Services will expect the Health Center to submit payment of any unpaid balance. Critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Health Center may request an extended repayment plan for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

On April 17, 2020, the Health Center received approximately \$237,000 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 27, 2020, related to this special emergency grant.

On April 28, 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 approximately \$806,000 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 borrow. 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 WCHC or loan forgiveness.

On May 6, 2020, the Health Center received approximately \$3,165,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the 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.

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On May 20, 2020, the Health Center received approximately \$49,000 of additional stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring for COVID-19 testing. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the 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.

**Note 13: Future Change in Accounting Principle**

***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.