

Morris County Hospital
A Component Unit of Morris County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

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A Component Unit of Morris County, Kansas
December 31, 2019 and 2018

Contents

Independent Auditor's Report1

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
Morris County Hospital
Council Grove, Kansas

We have audited the accompanying financial statements of Morris County Hospital (Hospital), a component unit of Morris 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 the 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 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 Morris County Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in 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
September 4, 2020

Morris County Hospital
A Component Unit of Morris County, Kansas
Balance Sheets
December 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 182,484	\$ 743,269
Restricted cash	159,923	82,623
Short-term investments	433,568	407,801
Patient accounts receivable, net of allowance; 2019 – \$574,225; 2018 – \$645,438	2,881,026	2,553,487
Estimated amounts due from third-party payers	2,000	93,184
Other receivables	328,427	122,376
Supplies	327,465	335,336
Prepaid expenses	<u>304,556</u>	<u>237,529</u>
 Total current assets	 <u>4,619,449</u>	 <u>4,575,605</u>
Noncurrent Cash and Investments		
Board designated for physician recruitment	-	62,373
Board designated for capital improvements	3,089,732	3,046,291
Held by trustee for debt service	<u>-</u>	<u>154,491</u>
	<u>3,089,732</u>	<u>3,263,155</u>
 Capital Assets, Net	 <u>8,314,026</u>	 <u>8,920,589</u>
 Physician Receivable	 <u>32,181</u>	 <u>135,193</u>
 Total assets	 <u>16,055,388</u>	 <u>16,894,542</u>
 Deferred Outflows of Resources	 <u>59,500</u>	 <u>99,167</u>
 Total assets and deferred outflows of resources	 <u>\$ 16,114,888</u>	 <u>\$ 16,993,709</u>

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 135,000	\$ 251,510
Accounts payable	603,309	610,174
Accrued payroll and withholdings	203,988	177,926
Accrued employee benefits	333,259	275,270
Accrued interest payable	46,428	47,832
	<u>1,321,984</u>	<u>1,362,712</u>
Long-term Debt	<u>3,402,313</u>	<u>3,534,881</u>
Total liabilities	<u>4,724,297</u>	<u>4,897,593</u>
Net Position		
Net investment in capital assets	4,776,713	5,134,198
Restricted - expendable for		
Debt service	-	154,491
Capital acquisitions	159,923	82,623
Unrestricted	<u>6,453,955</u>	<u>6,724,804</u>
Total net position	<u>11,390,591</u>	<u>12,096,116</u>
Total liabilities and net position	<u>\$ 16,114,888</u>	<u>\$ 16,993,709</u>

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

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$484,159; 2018 – \$545,313	\$ 11,467,161	\$ 10,239,597
Other	180,738	173,533
Total operating revenues	11,647,899	10,413,130
Operating Expenses		
Salaries and wages	5,538,866	4,146,105
Employee benefits	932,605	784,454
Supplies and other	1,885,155	1,600,237
Contracts	3,515,285	3,598,125
Depreciation and amortization	1,025,659	843,706
Total operating expenses	12,897,570	10,972,627
Operating Loss	(1,249,671)	(559,497)
Nonoperating Revenues (Expenses)		
Noncapital contributions	88,220	32,560
Noncapital appropriations - Morris County	416,752	405,132
Council Grove Assisted Living, LLC losses	(114,267)	(2,534)
Investment income	172,731	27,559
Interest expense	(140,190)	(80,715)
Total nonoperating revenues	423,246	382,002
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(826,425)	(177,495)
Capital Grants and Gifts	120,900	210,570
Increase (Decrease) in Net Position	(705,525)	33,075
Net Position, Beginning of Year	12,096,116	12,063,041
Net Position, End of Year	\$ 11,390,591	\$ 12,096,116

Morris County Hospital
A Component Unit of Morris County, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 11,331,796	\$ 9,830,825
Payments to suppliers and contractors	(5,303,002)	(5,122,867)
Payments to employees	(6,387,420)	(4,788,390)
Other receipts, net	(25,313)	125,025
Net cash provided by (used in) operating activities	(383,939)	44,593
Noncapital Financing Activities		
Noncapital contributions	88,220	32,560
Noncapital appropriations - Morris County	416,752	405,132
Net cash provided by noncapital financing activities	504,972	437,692
Capital and Related Financing Activities		
Capital grants and gifts	120,900	210,570
Purchase of capital assets	(542,888)	(3,576,924)
Proceeds from issuance of revenue bonds	-	3,664,881
Principal paid on long-term debt	(249,078)	(1,463,262)
Interest paid on long-term debt	(141,594)	(46,778)
Net cash used in capital and related financing activities	(812,660)	(1,211,513)
Investing Activities		
Purchase of investments	(43,441)	(179,794)
Proceeds from disposition of investments	14,457	266,953
Change in noncurrent investments	62,373	(267)
Physician guarantee payments	2,022	(71,698)
Investment income	172,731	27,559
Net cash provided by investing activities	208,142	42,753
Decrease in Cash and Cash Equivalents	(483,485)	(686,475)
Cash and Cash Equivalents, Beginning of Year	825,892	1,512,367
Cash and Cash Equivalents, End of Year	\$ 342,407	\$ 825,892

Morris County Hospital
A Component Unit of Morris County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 182,484	\$ 743,269
Restricted cash	159,923	82,623
	\$ 342,407	\$ 825,892
Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,249,671)	\$ (559,497)
Provision for uncollectible accounts	484,159	545,313
Depreciation and amortization	1,025,659	843,706
Changes in operating assets and liabilities		
Patient accounts receivable	(710,708)	(876,283)
Estimated amounts due from and to third-party payers	91,184	(77,802)
Other receivables	(206,051)	(48,508)
Supplies	7,871	(36,664)
Prepaid expenses	(67,027)	9,522
Accounts payable	156,594	221,637
Accrued payroll and withholdings	26,062	65,040
Accrued employee benefits	57,989	77,129
Deferred outflows of resources	-	(119,000)
Net cash provided by (used in) operating activities	\$ (383,939)	\$ 44,593
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ -	\$ 163,459

Morris County Hospital
A Component Unit of Morris 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

Morris County Hospital (Hospital) is a county-owned, general hospital located in Council Grove, Kansas with a licensed bed capacity of 21 beds. The Hospital is considered a component unit of Morris County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and rural health clinic services to patients in the Morris County area.

The Hospital maintains an agreement with Morris County, Kansas (County) to operate the County health department. Under the terms of the agreement, the Hospital is responsible for providing overall administration and all related services for the health department. The Hospital is to receive the equivalent of at least a one mill levy from the County and the use of personal property of the health department. The agreement is renewable for successive one-year terms.

Morris County Hospital Foundation (Foundation) is a Kansas not-for-profit corporation exempt from federal income taxation under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). The Foundation was formed July 22, 1986 and is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to do all things that may appear necessary and useful in accomplishing the purposes of the Hospital. The board of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is included in the financial statements of the Hospital using the blended method. Complete financial statements of the Foundation may be obtained from its administrative offices at the following address:

Morris County Hospital Foundation
600 North Washington
Council Grove, Kansas 66846

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 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, 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.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of certificates of deposit and money market accounts.

Investments and Investment Income

Noncurrent cash and investments include short-term investments (assets held by the Foundation), assets held by trustees, and designated assets set aside by the Board of Trustees for physician recruitment and capital improvements. The Board of Trustees retains control over these assets and may, at its discretion, subsequently use these assets for other purposes. Short-term investments (assets held by the Foundation) consist of investments in U.S. Treasury securities, money market funds and mutual funds, which are carried at fair value, nonnegotiable certificate of deposit, which is carried at amortized cost, and an investment in equity investee (42% interest in net assets of Council Grove Assisted Living, LLC), which is reported on the equity method of accounting. All mutual funds are carried at fair value based upon readily determinable market values. Designated assets set aside by the Board of Trustees consist of certificates of deposit. Assets held by trustee are funds held for debt service.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

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.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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	10 – 15 years
Buildings	5 – 40 years
Equipment	5 – 20 years

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, 2019 and 2018.

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.

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. Employees with greater than 15 years of service vest in sick leave. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Bond Discount

Bond discount is being amortized over the life of the related debt using the effective interest method. The unamortized bond discount is included as a reduction to revenue bonds payable and is reflected as long-term debt in the accompanying balance sheets. The amortization of the bond discount is included as a component of interest expense.

Net Position

Net position of the Hospital is classified in three 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.
- 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 Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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.

Noncapital Appropriations – Morris County

The Hospital received approximately 3% and 4% of its financial support from noncapital appropriations from Morris County property tax levy in 2019 and 2018, respectively.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Morris 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 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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Note 2: Deposits and Investments

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.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

At December 31, 2019 and 2018, respectively, \$2,966,466 and \$3,414,888 of the Hospital's bank balances of \$3,559,095 and \$3,914,854 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution	\$ 2,966,466	\$ 3,414,888

At December 31, 2019 and 2018, the Foundation's bank balances were \$89,046 and \$70,570, respectively, and thus did not exceed federally insured limits.

Investments

The Hospital may legally invest in direct obligations guaranteed as to the principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

As of December 31, 2019 and 2018, the Hospital has the following investments, which are entirely held at the Foundation:

Type	2019	2018
U.S. Treasury securities ###	\$ 9,578	\$ 9,578
Money market ###	-	154,491
Mutual funds - equity ###	286,285	286,698
Mutual funds - fixed income ###	120,145	144,698
Certificate of deposit ***	100,000	-
Equity investment ^^	(82,440)	(33,173)
	\$ 433,568	\$ 562,292

*** Carried at amortized cost

Carried at fair value

^^ Reported on the equity investment of accounting

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy limits its investment portfolio to maturities of 10 years or less unless otherwise directed.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Concentration of Credit Risk. The Foundation's investment policy limits the amount that may be invested in any one issuer to the following maximum percentages:

Cash and certificates of deposit	25%
Fixed income	70%
Equity and other investments	60%

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	\$ 3,431,789	\$ 3,934,456
Investments	433,568	562,292
Cash on hand	350	100
	<u>\$ 3,865,707</u>	<u>\$ 4,496,848</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 182,484	\$ 743,269
Restricted cash	159,923	82,623
Short-term investments	433,568	407,801
Board designated for physician recruitment	-	62,373
Board designated for capital improvements	3,089,732	3,046,291
Held by trustee	-	154,491
	<u>\$ 3,865,707</u>	<u>\$ 4,496,848</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2019	2018
Interest and dividend income	\$ 70,873	\$ 58,406
Net increase (decrease) in fair value of investments	101,858	(30,847)
	<u>\$ 172,731</u>	<u>\$ 27,559</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 3: 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:

	2019	2018
Medicare	\$ 696,799	\$ 677,648
Medicaid	155,233	155,524
Blue Cross	404,337	332,309
Commercial	871,060	803,275
Self-pay	1,327,822	1,230,169
	3,455,251	3,198,925
Less allowance for uncollectible accounts	574,225	645,438
	\$ 2,881,026	\$ 2,553,487

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100,644	\$ -	\$ -	\$ -	\$ 100,644
Land improvements	227,472	-	-	-	227,472
Building	10,355,411	-	-	1,277,998	11,633,409
Fixed equipment	3,850,290	-	-	-	3,850,290
Moveable equipment	7,444,307	36,566	-	271,438	7,752,311
Construction in progress	1,314,504	342,863	-	(1,549,436)	107,931
	23,292,628	379,429	-	-	23,672,057
Less accumulated depreciation					
Land improvements	(227,086)	(295)	-	-	(227,381)
Building	(4,501,926)	(382,110)	-	-	(4,884,036)
Fixed equipment	(3,150,596)	(167,099)	-	-	(3,317,695)
Moveable equipment	(6,492,431)	(436,488)	-	-	(6,928,919)
	(14,372,039)	(985,992)	-	-	(15,358,031)
Capital Assets, Net	\$ 8,920,589	\$ (606,563)	\$ -	\$ -	\$ 8,314,026

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 100,644	\$ -	\$ -	\$ -	\$ 100,644
Land improvements	227,472	-	-	-	227,472
Building	7,967,706	-	-	2,387,705	10,355,411
Fixed equipment	3,850,290	-	-	-	3,850,290
Moveable equipment	7,015,385	207,675	-	221,247	7,444,307
Construction in progress	390,748	3,532,708	-	(2,608,952)	1,314,504
	<u>19,552,245</u>	<u>3,740,383</u>	<u>-</u>	<u>-</u>	<u>23,292,628</u>
Less accumulated depreciation					
Land improvements	(226,380)	(706)	-	-	(227,086)
Building	(4,256,547)	(245,379)	-	-	(4,501,926)
Fixed equipment	(2,983,497)	(167,099)	-	-	(3,150,596)
Moveable equipment	(6,081,742)	(410,689)	-	-	(6,492,431)
	<u>(13,548,166)</u>	<u>(823,873)</u>	<u>-</u>	<u>-</u>	<u>(14,372,039)</u>
Capital Assets, Net	<u>\$ 6,004,079</u>	<u>\$ 2,916,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,920,589</u>

Note 5: Physician Receivables

During 2017, the Hospital entered into a contract with a physician to relocate to Council Grove, Kansas to establish a medical practice. The Hospital agreed to extend a line of credit to the physician to make monthly advances as needed not to exceed a certain aggregate amount during the support period. The support period is a period of 12 months following the commencement date of July 1, 2017. The physician is required to diligently and fully devote their efforts and time to the operation of their practice in Council Grove, Kansas for a 48-month commitment period. In the event the physician fails to perform under the contract, the physician is required to reimburse the Hospital for all sums advanced under the contract. The physician receivable is \$24,681 and \$127,693 at December 31, 2019 and 2018, respectively.

During 2018, the Hospital entered into a contract with a physician to relocate to Council Grove, Kansas to establish a medical practice. The Hospital offered a signing bonus to the physician following the commencement date of August 13, 2018. The physician is required to diligently and fully devote their efforts and time to the operation of their practice in Council Grove, Kansas. In the event the physician ceases to practice medicine in the service area on a full time basis within twelve months following the commencement date, the physician is required to reimburse the Hospital for the signing bonus. The physician receivable is \$7,500 at December 31, 2019 and 2018.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Professional Liability Claims

The Hospital purchases professional liability 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.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 38,099	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	429,938	324,236
Claims and expenses paid	<u>(422,445)</u>	<u>(286,137)</u>
Balance, end of year	<u>\$ 45,592</u>	<u>\$ 38,099</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 8: Long-term Obligations

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

	2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2018A	\$ 1,175,000	\$ -	\$ 130,000	\$ 1,045,000	\$ 135,000	\$ 910,000
Series 2018B	2,520,000	-	-	2,520,000	-	2,520,000
Capital lease obligations	121,510	-	121,510	-	-	-
	<u>3,816,510</u>	<u>-</u>	<u>251,510</u>	<u>3,565,000</u>	<u>135,000</u>	<u>3,430,000</u>
Unamortized discount on Series 2018 A&B bonds	(30,119)	-	(2,432)	(27,687)	-	(27,687)
	<u>\$ 3,786,391</u>	<u>\$ -</u>	<u>\$ 249,078</u>	<u>\$ 3,537,313</u>	<u>\$ 135,000</u>	<u>\$ 3,402,313</u>

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2011A	\$ 1,305,000	\$ -	\$ 1,305,000	\$ -	\$ -	\$ -
Series 2018A	-	1,175,000	-	1,175,000	130,000	1,045,000
Series 2018B	-	2,520,000	-	2,520,000	-	2,520,000
Capital lease obligations	279,772	-	158,262	121,510	121,510	-
	<u>1,584,772</u>	<u>3,695,000</u>	<u>1,463,262</u>	<u>3,816,510</u>	<u>251,510</u>	<u>3,565,000</u>
Unamortized discount on Series 2018 A&B bonds	-	(30,119)	-	(30,119)	-	(30,119)
	<u>\$ 1,584,772</u>	<u>\$ 3,664,881</u>	<u>\$ 1,463,262</u>	<u>\$ 3,786,391</u>	<u>\$ 251,510</u>	<u>\$ 3,534,881</u>

Revenue Bonds Payable – Series 2018A

On August 13, 2018, the Hospital issued \$1,175,000 in Series 2018A Refunding Revenue Bonds with an average interest rate of 3.00% to advance refund \$1,175,000 of outstanding 2011A Series bonds with an average interest rate of 3.21%. The net proceeds of \$1,175,000 (after payment of \$25,839 in underwriting fees and other issuance costs) plus an additional \$150,753 of 2011A Series debt service fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011A Series bonds. As a result, the 2011A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the Hospital's balance sheet.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Revenue Bonds Payable – Series 2018B

The Series 2018B Taxable Revenue Bonds (Morris County Hospital Project) payable consist of bonds in the original amount of \$2,520,000 dated August 13, 2018, which bear interest at 4.12% to 4.42%. The bonds are payable in annual installments through September 1, 2038. The Hospital is required to make monthly deposits at a pro-rated amount of the next maturing principal and interest to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Hospital's option on or after September 1, 2025, at 100%. The bonds are secured by the net revenues of the Hospital. Proceeds from the issuance of these bonds were used to reconstruct and remodel portions of the existing hospital facility.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee in the balance sheets. The indenture agreements also require the Hospital to comply with restrictive covenants including maintaining a historical debt-service ratio of at least 1.25. As of December 31, 2019, the Hospital did not meet the debt-service ratio covenant of at least 1.25, but the ratio was at least 1.00. This noncompliance is not a callable event; and since the Hospital's historical debt-service-ratio was at least 1.00 they are not required to engage a consultant to help determine a plan to get the Hospital back to a financial position where they are in compliance with required covenants.

Revenue Bonds Payable – Series 2011A

The Series 2011A Revenue Bonds (Morris County Hospital Project) payable consist of bonds in the original amount of \$2,000,000 dated December 1, 2011, which bear interest at 1.50% to 3.75%. The bonds are payable in annual installments through September 1, 2026. All of the bonds still outstanding may be redeemed at the Hospital's option on or after September 1, 2018, at 100%. The bonds are secured by the net revenues of the Hospital. Proceeds from the issuance of these bonds were used to construct an addition to the hospital building and defease the Series A 2002 Hospital Revenue Bonds. The bonds were refunded during 2018 with the issuance of the Series 2018A bonds.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Capital Lease Obligations

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

	2019	2018
Equipment	\$ -	\$ 768,394
Less accumulated depreciation	-	(640,328)
	\$ -	\$ 128,066

Debt Service Requirements

Debt service requirements on long-term debt as of December 31, 2019, are as follows:

Year Ending December 31,	Long-term Debt	
	Principal	Interest
2020	\$ 135,000	\$ 137,334
2021	140,000	133,284
2022	145,000	129,084
2023	150,000	124,734
2024	150,000	120,234
2025-2028	2,845,000	973,156
	\$ 3,565,000	\$ 1,617,826

Note 9: 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. A mandatory payment reduction, known as sequestration, of 2% is in effect and will reduce payments until 2025.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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 51% and 56% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing 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 10: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$79,000 and \$53,000 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 11: Pension Plans

Defined Contribution

The Board of Trustees elected to withdraw from the social security system and approved a defined contribution plan covering substantially all employees. Employees must have attained the age of 21 and has completed one year of service. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. 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 Hospital's governing body. According to the terms of the plan, the Hospital will contribute 7.5% of the employees' compensation each plan year. The Plan allows for direct rollover and participant rollover contributions from eligible retirement plans. Contributions from the Hospital to the plan were \$407,846 and \$302,946 for the years ended December 31, 2019 and 2018, respectively.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Profit-Sharing Plan

The Board of Trustees elected to provide its employees with a profit-sharing retirement plan. The profit-sharing retirement plan contributions are discretionary contributions equal to a percentage of the employees' compensation, which will be determined by action of the Hospital's governing body each plan year. The Hospital did not make any contributions to the plan for the years ended December 31, 2019 and 2018.

Deferred Compensation Plan

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 \$152,790 and \$47,215 for the years ended December 31, 2019 and 2018, respectively. The Hospital does not contribute to the 457(b) plan.

Note 12: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019	Fair Value			
Mutual funds - equity	\$ 286,285	\$ 286,285	\$ -	\$ -
Mutual funds - fixed income	120,145	120,145	-	-
U.S. Treasury securities	9,578	9,578	-	-
	<u>416,008</u>	<u>\$ 416,008</u>	<u>\$ -</u>	<u>\$ -</u>
Certificate of deposit	100,000			
Equity investment	<u>(82,440)</u>			
	<u>\$ 433,568</u>			

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018	Fair Value			
Mutual funds - equity	\$ 286,698	\$ 286,698	\$ -	\$ -
Mutual funds - fixed income	144,698	144,698	-	-
Money market	154,491	154,491	-	-
U.S. Treasury securities	9,578	9,578	-	-
	<u>595,465</u>	<u>\$ 595,465</u>	<u>\$ -</u>	<u>\$ -</u>
Equity investment	<u>(33,173)</u>			
	<u>\$ 562,292</u>			

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include all the investments held by the Foundation and consist of equity securities and treasury securities.

Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2019 and 2018:

	December 31, 2019			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 4,094,038	\$ 525,411	\$ -	\$ 4,619,449
Capital assets, net	8,314,026	-	-	8,314,026
Other assets	3,121,913	-	-	3,121,913
Total assets	15,529,977	525,411	-	16,055,388
Deferred Outflows of Resources	59,500	-	-	59,500
Total assets and deferred outflows of resources	\$ 15,589,477	\$ 525,411	\$ -	\$ 16,114,888
Liabilities				
Current liabilities	\$ 1,270,327	\$ 51,657	\$ -	\$ 1,321,984
Noncurrent liabilities	3,402,313	-	-	3,402,313
Total liabilities	4,672,640	51,657	-	4,724,297
Net Position				
Net investments in capital assets	4,776,713	-	-	4,776,713
Restricted expendable	-	159,923	-	159,923
Unrestricted	6,140,124	313,831	-	6,453,955
Total net position	10,916,837	473,754	-	11,390,591
Total liabilities and net position	\$ 15,589,477	\$ 525,411	\$ -	\$ 16,114,888

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

	December 31, 2018			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 4,093,972	\$ 481,633	\$ -	\$ 4,575,605
Capital assets, net	8,920,589	-	-	8,920,589
Other assets	3,398,348	-	-	3,398,348
Total assets	16,412,909	481,633	-	16,894,542
Deferred Outflows of Resources				
	99,167	-	-	99,167
Total assets and deferred outflows of resources	\$ 16,512,076	\$ 481,633	\$ -	\$ 16,993,709
Liabilities				
Current liabilities	\$ 1,362,712	\$ -	\$ -	\$ 1,362,712
Noncurrent liabilities	3,534,881	-	-	3,534,881
Total liabilities	4,897,593	-	-	4,897,593
Net Position				
Net investments in capital assets	5,134,198	-	-	5,134,198
Restricted expendable	154,491	82,623	-	237,114
Unrestricted	6,325,794	399,010	-	6,724,804
Total net position	11,614,483	481,633	-	12,096,116
Total liabilities and net position	\$ 16,512,076	\$ 481,633	\$ -	\$ 16,993,709

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2019 and 2018:

	December 31, 2019			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,467,161	\$ -	\$ -	\$ 11,467,161
Other	177,958	2,780	-	180,738
Total operating revenues	<u>11,645,119</u>	<u>2,780</u>	<u>-</u>	<u>11,647,899</u>
Operating Expenses				
Other operating expenses	11,730,610	141,301	-	11,871,911
Depreciation and amortization	1,025,659	-	-	1,025,659
Total operating expenses	<u>12,756,269</u>	<u>141,301</u>	<u>-</u>	<u>12,897,570</u>
Operating Loss	<u>(1,111,150)</u>	<u>(138,521)</u>	<u>-</u>	<u>(1,249,671)</u>
Nonoperating Revenues (Expenses)				
Noncapital contributions	35,178	53,042	-	88,220
Noncapital appropriations - Morris County	416,752	-	-	416,752
Transfers from Foundation (to Hospital) for operations	43,600	(43,600)	-	-
Council Grove Assisted Living, LLC losses	-	(114,267)	-	(114,267)
Investment income	58,164	114,567	-	172,731
Interest expense	(140,190)	-	-	(140,190)
Total nonoperating revenues	<u>413,504</u>	<u>9,742</u>	<u>-</u>	<u>423,246</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	<u>(697,646)</u>	<u>(128,779)</u>	<u>-</u>	<u>(826,425)</u>
Capital Grants and Gifts	<u>-</u>	<u>120,900</u>	<u>-</u>	<u>120,900</u>
Decrease in Net Position	<u>(697,646)</u>	<u>(7,879)</u>	<u>-</u>	<u>(705,525)</u>
Net Position, Beginning of Year	<u>11,614,483</u>	<u>481,633</u>	<u>-</u>	<u>12,096,116</u>
Net Position, End of Year	<u>\$ 10,916,837</u>	<u>\$ 473,754</u>	<u>\$ -</u>	<u>\$ 11,390,591</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

	December 31, 2018			Total
	Hospital	Foundation	Eliminations	
Operating Revenues				
Net patient service revenue	\$ 10,239,597	\$ -	\$ -	\$ 10,239,597
Other	169,051	4,482	-	173,533
Total operating revenues	<u>10,408,648</u>	<u>4,482</u>	<u>-</u>	<u>10,413,130</u>
Operating Expenses				
Other operating expenses	10,062,103	66,818	-	10,128,921
Depreciation and amortization	840,179	3,527	-	843,706
Total operating expenses	<u>10,902,282</u>	<u>70,345</u>	<u>-</u>	<u>10,972,627</u>
Operating Loss	<u>(493,634)</u>	<u>(65,863)</u>	<u>-</u>	<u>(559,497)</u>
Nonoperating Revenues (Expenses)				
Noncapital contributions	7,016	25,544	-	32,560
Noncapital appropriations - Morris County	405,132	-	-	405,132
Transfers from Foundation (to Hospital) for operations	750,000	(750,000)	-	-
Council Grove Assisted Living, LLC losses	-	(2,534)	-	(2,534)
Investment income	47,552	(19,993)	-	27,559
Interest expense	(80,715)	-	-	(80,715)
Total nonoperating revenues (expenses)	<u>1,128,985</u>	<u>(746,983)</u>	<u>-</u>	<u>382,002</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	<u>635,351</u>	<u>(812,846)</u>	<u>-</u>	<u>(177,495)</u>
Capital Grants and Gifts	<u>-</u>	<u>210,570</u>	<u>-</u>	<u>210,570</u>
Increase (Decrease) in Net Position	<u>635,351</u>	<u>(602,276)</u>	<u>-</u>	<u>33,075</u>
Net Position, Beginning of Year	<u>10,979,132</u>	<u>1,083,909</u>	<u>-</u>	<u>12,063,041</u>
Net Position, End of Year	<u>\$ 11,614,483</u>	<u>\$ 481,633</u>	<u>\$ -</u>	<u>\$ 12,096,116</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2019 and 2018:

	December 31, 2019			
	Hospital	Foundation	Eliminations	Total
Net Cash Used In				
Operating Activities	\$ (297,545)	\$ (86,394)	\$ -	\$ (383,939)
Net Cash Provided By				
Noncapital Financing Activities	495,530	9,442	-	504,972
Net Cash Provided By (Used In)				
Capital and Related Financing Activities	(933,560)	120,900	-	(812,660)
Net Cash Provided By (Used In)				
Investing Activities	<u>233,609</u>	<u>(25,467)</u>	<u>-</u>	<u>208,142</u>
Increase (Decrease) in Cash and Cash Equivalents	(501,966)	18,481	-	(483,485)
Cash and Cash Equivalents, Beginning of Year	<u>752,530</u>	<u>73,362</u>	<u>-</u>	<u>825,892</u>
Cash and Cash Equivalents, End of Year	<u>\$ 250,564</u>	<u>\$ 91,843</u>	<u>\$ -</u>	<u>\$ 342,407</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

	December 31, 2018			
	Hospital	Foundation	Eliminations	Total
Net Cash Provided By (Used In)				
Operating Activities	\$ 106,929	\$ (62,336)	\$ -	\$ 44,593
Net Cash Provided By (Used In)				
Noncapital Financing Activities	1,162,148	(724,456)	-	437,692
Net Cash Provided By (Used In)				
Capital and Related Financing Activities	(1,422,083)	210,570	-	(1,211,513)
Net Cash Provided By (Used In)				
Investing Activities	<u>(94,334)</u>	<u>137,087</u>	<u>-</u>	<u>42,753</u>
Decrease in Cash and Cash Equivalents	(247,340)	(439,135)	-	(686,475)
Cash and Cash Equivalents, Beginning of Year	<u>999,870</u>	<u>512,497</u>	<u>-</u>	<u>1,512,367</u>
Cash and Cash Equivalents, End of Year	<u>\$ 752,530</u>	<u>\$ 73,362</u>	<u>\$ -</u>	<u>\$ 825,892</u>

Note 14: 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 Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Hospital received approximately \$322,000 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 Hospital with no repayment obligations. Management believes the Hospital will be able to attest to the requirements and retain all of the stimulus payments.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

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 Hospital received \$100,000 on April 24, 2020, related to this special emergency grant.

On April 29, 2020, the Hospital 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 was approximately \$1,177,700 at 1% interest with a maturity date of April 29, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On May 6, 2020, the Hospital received approximately \$3,321,000 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 Hospital with no repayment obligations. Management believes the Hospital will be able to attest to the requirements and retain a portion, if not all, the stimulus payments.

On May 20, 2020, the Hospital received approximately \$99,000 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 Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 15: 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 Hospital is evaluating the impact the statement will have on the financial statements.