

Ness County Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Ness County Hospital District No. 2
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Ness County Hospital District No. 2
Ness City, Kansas

We have audited the accompanying financial statements of Ness County Hospital District No. 2 as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Ness County Hospital District No. 2'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 Ness County Hospital District No. 2 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.

Other Matters

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, economical or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
January 8, 2021

Ness County Hospital District No. 2
Balance Sheets
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 1,178,686	\$ 591,885
Short-term certificates of deposit	81,492	129,980
Restricted cash	40,226	328,401
Patient accounts receivable, net of allowance; 2019 - \$358,000, 2018 - \$351,000	1,149,672	1,267,695
Property taxes receivable	1,710,043	1,516,050
Estimated amounts due from Medicare	-	52,000
Due from Medicaid for electronic health records incentive	-	78,657
Supplies	185,553	186,073
Prepaid expenses and other	<u>30,005</u>	<u>33,720</u>
Total current assets	4,375,677	4,184,461
Long-term Certificates of Deposit	48,718	-
Cash Held in Capital Assets Project Fund	1,513,543	-
Capital Assets, Net	3,704,373	3,490,174
Other Assets		
Farm land	<u>156,142</u>	<u>156,142</u>
Total assets	<u><u>\$ 9,798,453</u></u>	<u><u>\$ 7,830,777</u></u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 257,861	\$ 228,997
Accounts payable	151,133	354,402
Accrued expenses	486,856	519,856
Estimated amounts due to Medicare	168,000	-
Unearned grant revenue	-	9,450
	<hr/>	<hr/>
Total current liabilities	1,063,850	1,112,705
Long-term Debt	<hr/>	<hr/>
	2,788,595	1,282,278
	<hr/>	<hr/>
Total liabilities	3,852,445	2,394,983
	<hr/>	<hr/>
Deferred Inflows of Resources - Property Taxes	1,710,043	1,516,050
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	2,171,460	1,978,899
Restricted – expendable for specific operating activities	40,226	40,226
Restricted – expendable for debt service	-	288,175
Unrestricted	2,024,279	1,612,444
	<hr/>	<hr/>
Total net position	4,235,965	3,919,744
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,798,453</u>	<u>\$ 7,830,777</u>

Ness County Hospital District No. 2
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 - \$80,948, 2018 - \$105,864	\$ 8,580,142	\$ 8,609,191
Other	298,339	370,226
Total operating revenues	8,878,481	8,979,417
Operating Expenses		
Salaries and wages	4,602,435	4,629,164
Employee benefits	1,611,209	1,656,463
Purchased services and professional fees	1,330,346	1,525,549
Supplies and other	2,362,073	2,250,154
Depreciation	335,871	359,880
Total operating expenses	10,241,934	10,421,210
Operating Loss	(1,363,453)	(1,441,793)
Nonoperating Revenues (Expenses)		
Property taxes	1,606,003	1,451,558
Interest income	5,470	3,705
Interest expense	(58,928)	(51,548)
Noncapital grants and gifts	102,196	98,195
Farm income	17,658	6,066
Farm expense	(2,175)	(172)
Total nonoperating revenues	1,670,224	1,507,804
Excess of Revenues Over Expenses Before Capital Grants and Gifts	306,771	66,011
Capital Grants and Gifts	9,450	13,700
Increase in Net Position	316,221	79,711
Net Position, Beginning of Year	3,919,744	3,840,033
Net Position, End of Year	\$ 4,235,965	\$ 3,919,744

Ness County Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 8,996,822	\$ 8,443,561
Payments to suppliers and contractors	(3,892,523)	(3,706,568)
Payments to and on behalf of employees	(6,245,574)	(6,256,858)
Other receipts, net	302,206	370,226
Net cash used in operating activities	(839,069)	(1,149,639)
Cash Flows From Noncapital Financing Activities		
Property taxes	1,606,003	1,451,558
Noncapital grants and gifts	92,746	98,195
Net cash provided by noncapital financing activities	1,698,749	1,549,753
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	9,450	13,700
Proceeds from issuance of long-term debt	2,866,001	-
Principal paid on long-term debt	(1,525,820)	(262,800)
Interest paid on long-term debt	(58,928)	(51,548)
Purchase of capital assets	(358,937)	(187,723)
Net cash provided by (used in) capital and related financing activities	931,766	(488,371)
Cash Flows From Investing Activities		
Interest income received	5,470	3,705
Purchase of certificates of deposit	(121,432)	(96,032)
Maturities of certificates of deposit	121,202	95,802
Farm income received	17,658	6,066
Farm expenses paid	(2,175)	(172)
Net cash provided by investing activities	20,723	9,369
Increase (Decrease) in Cash	1,812,169	(78,888)
Cash, Beginning of Year	920,286	999,174
Cash, End of Year	\$ 2,732,455	\$ 920,286

Ness County Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 1,178,686	\$ 591,885
Restricted cash	40,226	328,401
Cash held in capital asset project fund	1,513,543	-
Total cash	\$ 2,732,455	\$ 920,286
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,363,453)	\$ (1,441,793)
Depreciation	335,871	359,880
Loss on disposal of assets	3,867	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	118,023	(230,437)
Estimated amounts due from and to Medicare and Medicaid	298,657	64,807
Accounts payable and accrued expenses	(236,269)	106,388
Other assets and liabilities	4,235	(8,484)
Net cash used in operating activities	\$ (839,069)	\$ (1,149,639)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 195,000	\$ -

Ness County Hospital District No. 2

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

Ness County Hospital District No. 2 (Hospital) is an acute care hospital located in Ness City, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ness County area. It also operates a home health agency in the same geographic area.

The Ness County Health Foundation, Inc. (Foundation) is a legally separate, tax-exempt, not-for-profit organization whose purpose is to raise and hold funds to support the Hospital and its programs. The Board of Directors of the Hospital appoints a voting majority of the Board of the Foundation resulting in the Hospital being financially accountable for the Foundation with the Foundation being included in the Hospital's financial statements as a blended component unit.

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, there were no cash equivalents.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

Certificates of Deposit

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

Property Taxes

The Hospital received approximately 15% in 2019 and 14% in 2018 of its financial support from property taxes. One hundred percent of these funds were used to support operations.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

Risk Management

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements 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 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied for use in future periods.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. 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.

Ness County Hospital District No. 2

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. The costs of charity care provided under the Hospital's charity care policy were \$87,782 and \$75,568 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.

Income Taxes

As an essential government entity, 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. The Foundation is 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.

Electronic Health Records Incentive Program

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

The Hospital recorded revenue under the Medicaid EHR program of \$0 and \$88,016 for the years ended December 31, 2019 and 2018, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

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 under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted on July 1 and January 1 using an average of the three previously filed annual 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 61% and 63% of net patient service revenue is 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 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At December 31, 2019 and 2018, none of the Hospital's bank balances of \$1,365,633 and \$928,712, respectively, were exposed to custodial credit risk.

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

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 – Hospital	\$ 2,705,821	\$ 903,429
Petty cash	581	575
	2,706,402	904,004
Deposits – Foundation	156,263	146,262
	\$ 2,862,665	\$ 1,050,266
Included in the following balance sheet captions:		
Cash	\$ 1,178,686	\$ 591,885
Short-term certificates of deposit	81,492	129,980
Restricted cash	40,226	328,401
Long-term certificates of deposit	48,718	-
Cash held in capital asset project fund	1,513,543	-
	\$ 2,862,665	\$ 1,050,266

Note 4: Patient Accounts Receivable

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

	2019	2018
Medicare	\$ 455,156	\$ 567,027
Medicaid	173,267	120,325
Blue Cross	218,694	217,119
Other third-party payers	152,292	227,583
Patients	508,263	486,641
	1,507,672	1,618,695
Less allowance for uncollectible accounts	358,000	351,000
	\$ 1,149,672	\$ 1,267,695

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,910,373	6,325	-	-	4,916,698
Fixed equipment	3,521,657	229,375	-	-	3,751,032
Major moveable equipment	2,442,740	31,730	(8,000)	-	2,466,470
Construction in progress	-	286,507	-	-	286,507
	<u>11,216,410</u>	<u>553,937</u>	<u>(8,000)</u>	<u>-</u>	<u>11,762,347</u>
Less accumulated depreciation					
Land improvements	210,552	1,449	-	-	212,001
Buildings	3,863,252	73,209	-	-	3,936,461
Fixed equipment	1,425,534	216,584	-	-	1,642,118
Major moveable equipment	2,226,898	44,629	(4,133)	-	2,267,394
	<u>7,726,236</u>	<u>335,871</u>	<u>(4,133)</u>	<u>-</u>	<u>8,057,974</u>
Capital Assets, Net	<u>\$ 3,490,174</u>	<u>\$ 218,066</u>	<u>\$ (3,867)</u>	<u>\$ -</u>	<u>\$ 3,704,373</u>
	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,904,500	5,873	-	-	4,910,373
Fixed equipment	3,486,299	35,358	-	-	3,521,657
Major moveable equipment	2,352,180	146,492	(55,932)	-	2,442,740
	<u>11,084,619</u>	<u>187,723</u>	<u>(55,932)</u>	<u>-</u>	<u>11,216,410</u>
Less accumulated depreciation					
Land improvements	209,086	1,466	-	-	210,552
Buildings	3,765,482	97,770	-	-	3,863,252
Fixed equipment	1,226,615	198,919	-	-	1,425,534
Major moveable equipment	2,221,105	61,725	(55,932)	-	2,226,898
	<u>7,422,288</u>	<u>359,880</u>	<u>(55,932)</u>	<u>-</u>	<u>7,726,236</u>
Capital Assets, Net	<u>\$ 3,662,331</u>	<u>\$ (172,157)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,490,174</u>

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2019	2018
Payable to suppliers and contractors	\$ 171,417	\$ 410,064
Payable to employees (including payroll taxes and benefits)	466,572	464,194
	\$ 637,989	\$ 874,258

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 8: Long-term Debt

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

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 1,511,275	\$ 3,061,001	\$ 1,525,820	\$ 3,046,456	\$ 257,861
Total long-term debt	\$ 1,511,275	\$ 3,061,001	\$ 1,525,820	\$ 3,046,456	\$ 257,861
	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 1,774,075	\$ -	\$ 262,800	\$ 1,511,275	\$ 228,997
Total long-term debt	\$ 1,774,075	\$ -	\$ 262,800	\$ 1,511,275	\$ 228,997

Ness County Hospital District No. 2
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. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2019 and 2018, follows:

	2019	2018
Equipment	\$ 2,999,796	\$ 2,518,289
Accumulated depreciation	911,642	727,506
	\$ 2,088,154	\$ 1,790,783

The following is a schedule by year of future minimum lease payments under the capital lease including interest at 2.90% to 3.95% together with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending December 31,	
2020	\$ 318,802
2021	374,125
2022	374,125
2023	374,125
2024	374,125
2025 - 2029	1,701,673
Total minimum lease payments	3,516,975
Less amount representing interest	470,519
Present value of future minimum lease payments	\$ 3,046,456

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. 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. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2019 and 2018, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated \$203,254 and \$132,861 during 2019 and \$197,491 and \$149,200 during 2018, respectively.

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

Note 10: Assets Held in Trust

The Hospital is a contingent income beneficiary of a trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trust amounted to \$15,115 in 2019 and 2018, respectively.

Note 11: 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	Total
Assets			
Current assets	\$ 4,268,132	\$ 107,545	\$ 4,375,677
Capital assets, net	3,704,373	-	3,704,373
Other assets	1,513,543	204,860	1,718,403
Total assets	<u>\$ 9,486,048</u>	<u>\$ 312,405</u>	<u>\$ 9,798,453</u>
Liabilities			
Current liabilities	\$ 1,063,850	\$ -	\$ 1,063,850
Noncurrent liabilities	2,788,595	-	2,788,595
Total liabilities	<u>3,852,445</u>	<u>-</u>	<u>3,852,445</u>
Deferred Inflows of Resources - Property Taxes	<u>1,710,043</u>	<u>-</u>	<u>1,710,043</u>
Net Position			
Net investment in capital assets	1,966,600	204,860	2,171,460
Restricted – expendable for specific operating activities	40,226	-	40,226
Unrestricted	1,916,734	107,545	2,024,279
Total net position	<u>3,923,560</u>	<u>312,405</u>	<u>4,235,965</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 9,486,048</u>	<u>\$ 312,405</u>	<u>\$ 9,798,453</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

	December 31, 2018		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 4,038,199	\$ 146,262	\$ 4,184,461
Capital assets, net	3,490,174	-	3,490,174
Other assets	-	156,142	156,142
	<u>\$ 7,528,373</u>	<u>\$ 302,404</u>	<u>\$ 7,830,777</u>
Liabilities			
Current liabilities	\$ 1,112,705	\$ -	\$ 1,112,705
Noncurrent liabilities	1,282,278	-	1,282,278
	<u>2,394,983</u>	<u>-</u>	<u>2,394,983</u>
Deferred Inflows of Resources - Property Taxes	<u>1,516,050</u>	<u>-</u>	<u>1,516,050</u>
Net Position			
Net investment in capital assets	1,822,757	156,142	1,978,899
Restricted – expendable for specific operating activities	40,226	-	40,226
Restricted – expendable for debt service	288,175	-	288,175
Unrestricted	1,466,182	146,262	1,612,444
	<u>3,617,340</u>	<u>302,404</u>	<u>3,919,744</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,528,373</u>	<u>\$ 302,404</u>	<u>\$ 7,830,777</u>

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statement 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	Total
Operating Revenues			
Net patient service revenue	\$ 8,580,142	\$ -	\$ 8,580,142
Other	295,304	3,035	298,339
Total operating revenues	<u>8,875,446</u>	<u>3,035</u>	<u>8,878,481</u>
Operating Expenses			
Other operating expenses	9,896,196	9,867	9,906,063
Depreciation	335,871	-	335,871
Total operating expenses	<u>10,232,067</u>	<u>9,867</u>	<u>10,241,934</u>
Operating Loss	<u>(1,356,621)</u>	<u>(6,832)</u>	<u>(1,363,453)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,606,003	-	1,606,003
Interest income	4,725	745	5,470
Interest expense	(58,928)	-	(58,928)
Noncapital grants and gifts	102,196	-	102,196
Farm income	-	17,658	17,658
Farm expense	-	(2,175)	(2,175)
Total nonoperating revenues	<u>1,653,996</u>	<u>16,228</u>	<u>1,670,224</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	297,375	9,396	306,771
Capital Grants and Gifts	<u>8,845</u>	<u>605</u>	<u>9,450</u>
Increase in Net Position	306,220	10,001	316,221
Net Position, Beginning of Year	<u>3,617,340</u>	<u>302,404</u>	<u>3,919,744</u>
Net Position, End of Year	<u>\$ 3,923,560</u>	<u>\$ 312,405</u>	<u>\$ 4,235,965</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

	December 31, 2018		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	\$ 8,609,191	\$ -	\$ 8,609,191
Other	367,582	2,644	370,226
Total operating revenues	8,976,773	2,644	8,979,417
Operating Expenses			
Other operating expenses	10,011,435	49,895	10,061,330
Depreciation	359,880	-	359,880
Total operating expenses	10,371,315	49,895	10,421,210
Operating Loss	(1,394,542)	(47,251)	(1,441,793)
Nonoperating Revenues (Expenses)			
Property taxes	1,451,558	-	1,451,558
Interest income	2,959	746	3,705
Interest expense	(51,548)	-	(51,548)
Noncapital grants and gifts	98,195	-	98,195
Farm income	-	6,066	6,066
Farm expense	-	(172)	(172)
Total nonoperating revenues	1,501,164	6,640	1,507,804
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	106,622	(40,611)	66,011
Capital Grants and Gifts	11,510	2,190	13,700
Increase (Decrease) in Net Position	118,132	(38,421)	79,711
Net Position, Beginning of Year	3,499,208	340,825	3,840,033
Net Position, End of Year	\$ 3,617,340	\$ 302,404	\$ 3,919,744

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

The following tables include condensed combining statement 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	Total
Net Cash Used in Operating Activities	\$ (832,237)	\$ (6,832)	\$ (839,069)
Net Cash Provided by Noncapital Financing Activities	1,698,749	-	1,698,749
Net Cash Provided by Capital and Related Financing Activities	931,161	605	931,766
Net Cash Provided by Investing Activities	4,265	16,458	20,723
Increase in Cash	1,801,938	10,231	1,812,169
Cash, Beginning of Year	774,024	146,262	920,286
Cash, End of Year	<u>\$ 2,575,962</u>	<u>\$ 156,493</u>	<u>\$ 2,732,455</u>

	December 31, 2018		
	Hospital	Foundation	Total
Net Cash Used in Operating Activities	\$ (1,102,388)	\$ (47,251)	\$ (1,149,639)
Net Cash Provided by Noncapital Financing Activities	1,549,753	-	1,549,753
Net Cash Provided by (Used in) Capital and Related Financing Activities	(490,561)	2,190	(488,371)
Net Cash Provided by Investing Activities	2,499	6,870	9,369
Decrease in Cash	(40,697)	(38,191)	(78,888)
Cash, Beginning of Year	848,209	150,965	999,174
Cash, End of Year	<u>\$ 807,512</u>	<u>\$ 112,774</u>	<u>\$ 920,286</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

Note 12: Future Change in Accounting Principle

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

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

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

Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

Note 13: 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 \$236,495 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 has attested to the requirements and believes the Hospital will retain the stimulus payments.

On April 30, 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 is \$1,080,950 at 1.00% interest with a 2-year maturity. With the passing of the *Paycheck Protection Program Flexibility Act of 2020*, PPP loans entered into before June 5, 2020, could be modified to reflect a 5-year maturity by agreement with the lender and borrower. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On April 15, 2020, the Hospital received \$2,116,389 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. The Hospital will continue to submit claims as usual after receiving the advanced payment. On October 1, 2020, President Trump signed into law the *Continuing Appropriations Act, 2021 and Other Extensions Act* which significantly modified the repayment provisions for these advanced payments. Under current law, the Medicare Administrative Contractor will begin recoupment one year from the date the lump-sum accelerated payment was issued. During the first 11 months after repayment begins, the recoupment rate will be 25%. At the end of the 11-month period, the recoupment rate will increase to 50% and will continue at this rate for 6 months. If the total amount of the accelerated payment is not repaid within 29 months from the date the payment was issued, a demand letter for the outstanding balance will be issued. The demanded amount will be subject to a 4% interest rate. It will be critical that providers have a plan on how it will meet cash needs during the time Medicare payments are reduced for repayment.

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.

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

On May 6, 2020, the Hospital received \$3,310,236 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 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.

On May 20, 2020, the Hospital received \$49,461 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 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.

On June 8, 2020, the Hospital received \$125,000 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 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.

On August 28, 2020, the Hospital received \$53,500 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 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.

Subsequent events have been evaluated through January 8, 2021, which is the date the financial statements were available to be issued.

Supplementary Information

Ness County Hospital District No. 2
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2019

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	\$ 8,866,165	\$ 8,206,120	\$ 660,045
Other revenue	<u>298,339</u>	<u>405,000</u>	<u>(106,661)</u>
Total operating revenue	<u>9,164,504</u>	<u>8,611,120</u>	<u>553,384</u>
Operating expenses	11,525,119	10,622,299	902,820
Capital expenditures	<u>358,937</u>	<u>100,000</u>	<u>258,937</u>
Total operating expenses	<u>11,884,056</u>	<u>10,722,299</u>	<u>1,161,757</u>
Operating loss	<u>(2,719,552)</u>	<u>(2,111,179)</u>	<u>(608,373)</u>
Property tax revenue	1,606,003	1,524,745	81,258
Other nonoperating revenues	<u>105,491</u>	<u>101,160</u>	<u>4,331</u>
Total nonoperating revenues	<u>1,711,494</u>	<u>1,625,905</u>	<u>85,589</u>
Deficiency of revenue over expenses	<u><u>\$ (1,008,058)</u></u>	<u><u>\$ (485,274)</u></u>	<u><u>\$ (522,784)</u></u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.