

**Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center**

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Anthony, Kansas

We have audited the accompanying financial statements of Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center (Health Center), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center's basic financial statements as listed in the table of contents. We have also audited the accompanying financial statements of the Health Center's discretely presented component unit, Harper County Health Foundation (Foundation), as of and for the year ended December 31, 2019.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, and its discretely presented component unit as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health Center's basic financial statements. The supplementary schedule, the Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Directors
Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
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The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
May 27, 2020

Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center

Balance Sheets December 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash	\$ 489,126	\$ 2,721,566
Restricted cash	73,518	68,925
Short-term certificates of deposit	255,000	-
Patient accounts receivable, net of allowance; 2019 - \$868,973, 2018 - \$1,146,051	4,081,977	2,258,844
Property and sales taxes receivable	1,597,870	1,589,596
Estimated amounts due from Medicare	555,000	13,720
Supplies	625,110	703,750
Prepaid expenses and other	455,283	212,108
Total current assets	8,132,884	7,568,509
Noncurrent Deposits		
Cash - project fund	942,003	17,027,414
Certificates of deposit	1,545,874	1,771,774
Total noncurrent deposits	2,487,877	18,799,188
Capital Assets, Net	38,645,423	28,047,669
Prepaid Expenses - Noncurrent	1,046,491	-
Total assets	50,312,675	54,415,366
Deferred Outflows of Resources - Pension		
Pension	2,966,928	2,185,423
Other postemployment benefits	1,145	18,932
Total deferred outflows of resources	2,968,073	2,204,355
Total assets and deferred outflows of resources	\$ 53,280,748	\$ 56,619,721

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 633,689	\$ 566,346
Accounts payable	362,443	476,393
Accrued expenses	806,388	989,701
Estimated amounts due to Medicare	-	600,000
Estimated self-insurance costs	-	82,810
	<u>1,802,520</u>	<u>2,715,250</u>
Long-term Debt	6,398,317	6,771,930
Net Pension Liability	6,240,064	6,223,384
Total Other Postemployment Benefits Liability	<u>150,515</u>	<u>488,000</u>
Total liabilities	<u>14,591,416</u>	<u>16,198,564</u>
Deferred Inflows of Resources		
Pension	2,572,130	1,666,129
Other postemployment benefits	17,926	19,363
Property taxes	1,625,940	1,643,598
	<u>4,215,996</u>	<u>3,329,090</u>
Net Position (Deficit)		
Net investment in capital assets	32,555,420	37,736,807
Unrestricted	<u>1,917,916</u>	<u>(644,740)</u>
Total net position	<u>34,473,336</u>	<u>37,092,067</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 53,280,748</u>	<u>\$ 56,619,721</u>

Harper County Health Foundation
A Discretely Presented Component Unit of Hospital District No. 6 of Harper
County, Kansas d/b/a Patterson Health Center
Statement of Financial Position
December 31, 2019

Assets

Current Assets

Cash	\$ 51,600
Investments	<u>1,069,405</u>

Total assets	<u><u>\$ 1,121,005</u></u>
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Net Assets

Without donor restrictions	<u>\$ 1,121,005</u>
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Total net assets	<u><u>\$ 1,121,005</u></u>
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Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
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 - \$607,312, 2018 - \$679,349	\$ 15,397,128	\$ 13,918,607
Other operating revenues	1,515,000	1,115,532
Total operating revenues	16,912,128	15,034,139
Operating Expenses		
Salaries and wages	8,492,339	8,514,735
Employee benefits	2,335,829	1,954,916
Purchased services and professional fees	2,119,706	1,630,027
Supplies and other	6,063,353	4,651,774
Depreciation	2,238,638	647,726
Total operating expenses	21,249,865	17,399,178
Operating Loss	(4,337,737)	(2,365,039)
Nonoperating Revenues (Expenses)		
Interest income	53,746	66,394
Interest expense	(250,857)	(90,561)
Noncapital contributions	168,207	36,124
Property and sales tax appropriations	1,674,704	2,135,251
Total nonoperating revenues	1,645,800	2,147,208
Deficiency of Revenue Over Expenses Before Capital Grants and Gifts	(2,691,937)	(217,831)
Capital Grants and Gifts	73,206	82,421
Decrease in Net Position	(2,618,731)	(135,410)
Net Position, Beginning of Year	37,092,067	37,227,477
Net Position, End of Year	\$ 34,473,336	\$ 37,092,067

Harper County Health Foundation
A Discretely Presented Component Unit of Hospital District No. 6 of Harper
County, Kansas d/b/a Patterson Health Center
Statement of Activities
Year Ended December 31, 2019

Revenues, Gains and Other Support	
Contributions	\$ 1,066,113
Investment return	<u>109,911</u>
Total revenues, gains and other support	<u>1,176,024</u>
Expenses	
Contributions to Health Center	30,758
Fund raising expenses	3,128
Other	<u>21,133</u>
Total expenses	<u>55,019</u>
Change in Net Assets	1,121,005
Net Assets, Beginning of Year	<u>-</u>
Net Assets, End of Year	<u><u>\$ 1,121,005</u></u>

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
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	\$ 12,471,708	\$ 14,793,876
Payments to suppliers and contractors	(9,547,028)	(6,145,982)
Payments to employees	(11,274,250)	(10,462,165)
Other receipts, net	1,489,068	1,280,090
Net cash used in operating activities	(6,860,502)	(534,181)
Cash Flows From Noncapital Financing Activities		
Noncapital grants and gifts	168,207	36,124
Property and sales taxes supporting operations	1,674,704	2,135,251
Net cash provided by noncapital financing activities	1,842,911	2,171,375
Cash Flows From Capital and Related Financing Activities		
Proceeds from the issuance of debt	-	4,900,000
Principal paid on long-term debt	(690,842)	(141,855)
Capital grants and gifts	73,206	33,945,403
Interest paid on long-term debt	(250,857)	(90,561)
Purchase of capital assets	(12,451,820)	(21,840,495)
Net cash provided by (used in) capital and related financing activities	(13,320,313)	16,772,492
Cash Flows From Investing Activities		
Purchase of certificates of deposit	(1,269,833)	(1,363,931)
Proceeds from maturities of certificates of deposit	1,240,733	1,098,979
Interest on deposits	53,746	66,394
Net cash provided by (used in) investing activities	24,646	(198,558)
Increase (Decrease) in Cash	(18,313,258)	18,211,128
Cash, Beginning of Year	19,817,905	1,606,777
Cash, End of Year	\$ 1,504,647	\$ 19,817,905

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 489,126	\$ 2,721,566
Cash - project fund	942,003	17,027,414
Restricted cash	73,518	68,925
	\$ 1,504,647	\$ 19,817,905
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (4,337,737)	\$ (2,365,039)
Depreciation	2,238,638	647,726
Provision for uncollectible accounts	607,312	679,349
Changes in operating assets and liabilities		
Patient accounts receivable	(2,430,445)	(218,230)
Supplies	78,640	(11,544)
Prepaid expenses and other assets	(1,289,666)	34,011
Accounts payable and accrued liabilities	(406,005)	551,459
Estimated third-party payer settlements	(1,141,280)	316,280
Net pension liability	16,680	(288,669)
Total other postemployment benefits liability	(337,485)	346
Deferred outflows of resources - pension and OPEB	(763,718)	(1,001,584)
Deferred inflows of resources - pension and OPEB	904,564	1,121,714
Net cash used in operating activities	\$ (6,860,502)	\$ (534,181)
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for property and equipment	\$ 384,572	\$ -

Harper County Health Foundation
A Discretely Presented Component Unit of Hospital District No. 6 of Harper
County, Kansas d/b/a Patterson Health Center
Statement of Cash Flows
Year Ended December 31, 2019

Cash Flows From Operating Activities	
Change in net assets	\$ 1,121,005
Items not requiring (providing) operating cash flow	
Net realized and unrealized gain on investments	<u>(109,911)</u>
Net cash provided by (used in) operating activities	<u>1,011,094</u>
Cash Flows From Investing Activities	
Purchase of investments	<u>(959,494)</u>
Net cash provided by (used in) investing activities	<u>(959,494)</u>
Increase (Decrease) in Cash	51,600
Cash, Beginning of Year	<u>-</u>
Cash, End of Year	<u><u>\$ 51,600</u></u>

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
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

Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center, (the Health Center), was organized for the purpose of providing health care services to patients in Harper County, Kansas and the surrounding area. The Health Center is governed by a Board of Directors elected by the registered voters of the District. The Health Center primarily earns revenues by providing inpatient and outpatient services to patients in south central Kansas.

In 2017, the registered voters of Hospital District No. 5 of Harper County, Kansas (District 5) approved the attachment of the territory of District 5 to that of Hospital District No. 6 of Harper County, Kansas. The agreement was effective November 1, 2017. In accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, the transaction was recorded as a transfer of operations as District 5 continued to survive as a legally separate entity. The value of all assets, deferred outflows, liabilities, deferred inflows and net position of District 5 transferred to District 6 were recorded at the carrying value as previously reported by District 5. Beginning November 1, 2017, all operations were under District 6. Due to timing of the effective date of the attachment and required submission of the annual tax budget, District 5 continued as a tax district and collected taxes through December 31, 2018. All taxes collected by District 5 subsequent to October 31, 2017, were passed along to District 6 in accordance with the agreement. Effective January 1, 2019, District 6 absorbed District 5 from a tax levying authority standpoint.

Basis of Accounting and Presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and property and sales taxes) 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Notes to Financial Statements
December 31, 2019 and 2018

Budgetary Principles

The Health Center is required by state statutes to adopt annual budgets on or before August 25th for the ensuing calendar year. The Board may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

For budget purposes, the general and debt service funds utilize the modified accrual basis of accounting. The modification in such method from the accrual basis is that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no material encumbrances at December 31, 2019 and 2018. Budgeted revenue and expenditure amounts represent the original budget adopted by the Board.

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, deferred outflows of resources, liabilities and deferred inflows 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 Health Center 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.

Property and Sales Tax Revenues

The Health Center received approximately 9% in 2019 and 12% in 2018 of its financial support from property and sales taxes. One hundred percent of those funds were used to support operations of the Health Center in both years. The sales tax agreements were in effect through December 31, 2018.

Property taxes are levied in November and are received beginning in January of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied. City sales taxes were collected by Anthony, Kansas and Harper, Kansas and remitted to the Health Center monthly during 2018.

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Notes to Financial Statements
December 31, 2019 and 2018

The 2019 and 2018 tax revenues are as follows:

	2019	2018
Property	\$ 1,674,704	\$ 1,123,935
Property - from District 5	-	732,802
Sales - Anthony	-	158,964
Sales - Harper	-	119,550
	\$ 1,674,704	\$ 2,135,251

Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and employee health. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Effective January 1, 2019, commercial insurance coverage was purchased for employee health.

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

Through December 31, 2018, the Health Center was 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 medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Noncurrent Deposits

Noncurrent deposits include assets consisting of certificates of deposit set aside by the Board of Directors for future capital improvements over which the Board of Directors retains control and may at its direction subsequently use for other purposes.

Patient Accounts Receivable

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

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Notes to Financial Statements
December 31, 2019 and 2018

Supplies

All supply inventories are stated at the lower of cost or net realizable value using the first-in, first-out method to determine cost.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Health Center:

Land improvements	3 - 20 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

Capital Asset Impairment

The Health Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Compensated Absences

Health Center policies permit most employees to accumulate vacation 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. 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 Outflows of Resources

The Health Center 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.

Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center

Notes to Financial Statements December 31, 2019 and 2018

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

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

Defined Benefit Other Postemployment Benefit Plan

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

Deferred Inflows of Resources

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

Net Position

Net position of the Health Center is classified in two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

Hospital District No. 6 of Harper County, Kansas d/b/a Patterson Health Center

Notes to Financial Statements December 31, 2019 and 2018

Uncompensated Care

The Health Center provides care at amounts less than its established rates to patients meeting certain criteria under its uncompensated care policy. Because the Health Center does not pursue collection of amounts determined to qualify as uncompensated care, these amounts are not reported as net patient service revenue.

Income Taxes

As a Hospital District (a political subdivision of Harper County and the state of Kansas), the Health Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Health Center has also obtained 501(c)(3) status with the IRS.

Foundation

Harper County Health Foundation (Foundation) is a legally separate, tax-exempt component unit of the Health Center. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Health Center in support of its programs. The nine-member board of the Foundation is self-perpetuating and consists of area business and community members. The Health Center appoints two members with one member appointed by an unrelated foundation. The remaining members are elected by a majority of the current members.

Although the Health Center does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are used for the benefit of the Health Center. Because of the relationship and level of support the Health Center receives from the Foundation, the Foundation is considered a component unit of the Health Center and is discretely presented in the Health Center's financial statements.

During the year ended December 31, 2019, the Foundation distributed \$30,758 to the Health Center.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Health Center's financial reporting entity for these differences.

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Notes to Financial Statements
December 31, 2019 and 2018

Note 2: Net Patient Service Revenue

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

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

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

Approximately 75% and 64% 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 Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

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

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

At December 31, 2019 and 2018, respectively, none of the Health Center's bank balances of \$3,305,521 and \$21,782,960, respectively, were exposed to custodial credit risk.

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Notes to Financial Statements
December 31, 2019 and 2018

Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 3,305,121	\$ 21,589,279
Petty cash	400	400
	<u>\$ 3,305,521</u>	<u>\$ 21,589,679</u>
Included in the following balance sheet captions		
Cash	\$ 489,126	\$ 2,721,566
Restricted cash	73,518	68,925
Short-term certificates of deposit	255,000	-
Cash - project fund	942,003	17,027,414
Noncurrent deposits - certificates of deposit	1,545,874	1,771,774
	<u>\$ 3,305,521</u>	<u>\$ 21,589,679</u>

Note 4: Patient Accounts Receivable

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 2,283,720	\$ 744,058
Medicaid	137,504	99,310
Other third-party payers	1,371,199	1,039,952
Patients	1,158,527	1,521,575
	<u>4,950,950</u>	<u>3,404,895</u>
Less allowance for uncollectible accounts	868,973	1,146,051
	<u>\$ 4,081,977</u>	<u>\$ 2,258,844</u>

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Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 250,710	\$ -	\$ -	\$ -	\$ 250,710
Land improvements	284,608	-	-	-	284,608
Buildings	5,259,598	-	-	30,412,359	35,671,957
Construction in process	22,598,817	15,350,859	(2,851,689)	(35,097,987)	-
Equipment	1,925,969	337,222	-	4,685,628	6,948,819
	<u>30,319,702</u>	<u>15,688,081</u>	<u>(2,851,689)</u>	<u>-</u>	<u>43,156,094</u>
Less accumulated depreciation					
Land improvements	180,941	-	-	-	180,941
Buildings	981,741	1,372,744	-	-	2,354,485
Equipment	1,109,351	865,894	-	-	1,975,245
	<u>2,272,033</u>	<u>2,238,638</u>	<u>-</u>	<u>-</u>	<u>4,510,671</u>
Capital Assets, Net	<u>\$ 28,047,669</u>	<u>\$ 13,449,443</u>	<u>\$ (2,851,689)</u>	<u>\$ -</u>	<u>\$ 38,645,423</u>

During 2019, \$2,851,689 of construction in process was written off as expense for various small equipment items that did not meet the Health Center's capitalization policy.

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 250,710	\$ -	\$ -	\$ -	\$ 250,710
Land improvements	412,431	-	(127,823)	-	284,608
Buildings	7,232,380	19,583	(1,992,365)	-	5,259,598
Construction in process	840,188	21,758,629	-	-	22,598,817
Equipment	5,518,041	62,283	(3,654,355)	-	1,925,969
	<u>14,253,750</u>	<u>21,840,495</u>	<u>(5,774,543)</u>	<u>-</u>	<u>30,319,702</u>
Less accumulated depreciation					
Land improvements	289,823	18,941	(127,823)	-	180,941
Buildings	2,662,138	311,968	(1,992,365)	-	981,741
Equipment	4,446,889	316,817	(3,654,355)	-	1,109,351
	<u>7,398,850</u>	<u>647,726</u>	<u>(5,774,543)</u>	<u>-</u>	<u>2,272,033</u>
Capital Assets, Net	<u>\$ 6,854,900</u>	<u>\$ 21,192,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,047,669</u>

Hospital District No. 6 of Harper County, Kansas
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Note 6: Medical Malpractice Coverage and Claims

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

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

Note 7: Employee Health Claims

Substantially all of the Health Center's employees and their dependents are eligible to participate in the Health Center's employee health insurance plan. Through December 31, 2018, the Health Center was self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$25,000 per covered employee. 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 by not yet reported. The accrual is estimated based on consideration of prior claim experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Health Center's estimate will change by a material amount in the near term.

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

	2019	2018
Balance, beginning of year	\$ 82,810	\$ 63,498
Current year claims incurred and changes in estimates for claims incurred in prior years	816,930	760,480
Claims and expenses paid	(899,740)	(741,168)
Balance, end of year	\$ -	\$ 82,810

**Hospital District No. 6 of Harper County, Kansas
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**Notes to Financial Statements
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Note 8: Long-term Obligations

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

	2019				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Hospital revenue bonds -					
Series 2014	\$ 374,265	\$ -	\$ 27,751	\$ 346,514	\$ 28,861
Series 2017	1,767,927	-	43,072	1,724,855	43,983
Series 2018	4,900,000	-	417,683	4,482,317	432,302
Capital lease obligations	296,084	384,572	202,336	478,320	128,543
	<u>\$ 7,338,276</u>	<u>\$ 384,572</u>	<u>\$ 690,842</u>	<u>\$ 7,032,006</u>	<u>\$ 633,689</u>

	2018				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Hospital revenue bonds -					
Series 2014	\$ 400,949	\$ -	\$ 26,684	\$ 374,265	\$ 27,751
Series 2017	1,810,000	-	42,073	1,767,927	43,072
Series 2018	-	4,900,000	-	4,900,000	417,683
Capital lease obligations	369,182	-	73,098	296,084	77,840
	<u>\$ 2,580,131</u>	<u>\$ 4,900,000</u>	<u>\$ 141,855</u>	<u>\$ 7,338,276</u>	<u>\$ 566,346</u>

Hospital District No. 6 of Harper County, Kansas, Hospital Revenue Bond – Series 2014

Effective July 14, 2014, the Health Center entered into the Hospital District No. 6 of Harper County, Kansas, Revenue Bond, Series 2014, issued under the United States Department of Agriculture (USDA), Rural Development program in the amount of \$475,000 and bearing interest at 4.00% for the radiology department remodeling project. Principal and interest payments under this series began July 25, 2015, and extend through July 25, 2029.

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The Health Center’s debt service requirements for the Series 2014 bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 42,542	\$ 28,861	\$ 13,681
2021	42,722	30,016	12,706
2022	42,722	31,217	11,505
2023	42,722	32,465	10,257
2024	42,720	33,764	8,956
2025-2029	<u>213,610</u>	<u>190,191</u>	<u>23,419</u>
	<u>\$ 427,038</u>	<u>\$ 346,514</u>	<u>\$ 80,524</u>

Hospital District No. 6 of Harper County, Kansas, Hospital Revenue Bond – Series 2017

Effective November 1, 2017, the Health Center entered into the Hospital District No. 6 of Harper County, Kansas, Revenue Bond, Series 2017, issued under the United States Department of Agriculture (USDA), Rural Development program in the amount of \$1,810,000 and bearing interest at 2.35% for refunding of debt from the merger with Hospital District No. 5 of Harper County. Principal and interest payments under this series began October 26, 2018, and extend through October 26, 2047.

The indenture agreement requires the Health Center to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.10 to 1 and restrictions on incurring additional debt. The Health Center was not in compliance with the debt-service coverage ratio at December 31, 2019. As such, the Health Center is required to hire a consultant to make recommendations with respect to increasing rates and charges to a level to meet the required ratio. Failure to achieve the required debt-service coverage ratio is not a callable event and therefore not all debt is reflected as current in the balance sheets.

Hospital District No. 6 of Harper County, Kansas
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The Health Center's debt service requirements for the Series 2017 bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 85,060	\$ 43,983	\$ 41,077
2021	85,061	45,140	39,921
2022	85,060	46,212	38,848
2023	85,060	47,309	37,751
2024	85,061	48,333	36,728
2025-2029	425,302	259,873	165,429
2030-2034	425,303	292,248	133,055
2035-2039	425,303	328,655	96,648
2040-2044	425,303	369,578	55,725
2045-2047	255,182	243,524	11,658
	<u>\$ 2,381,695</u>	<u>\$ 1,724,855</u>	<u>\$ 656,840</u>

Hospital District No. 6 of Harper County, Kansas, Hospital Revenue Bond – Series 2018

Effective December 20, 2018, the Health Center entered into the Hospital District No. 6 of Harper County, Kansas, Revenue Bond, Series 2018, issued under the United States Department of Agriculture (USDA), Rural Development program in the amount of \$4,900,000 and bearing interest at 3.50% for the purchase of equipment. Principal and interest payments under this series began December 20, 2019, and extend through December 20, 2028.

The Health Center's debt service requirements for the Series 2018 bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 589,183	\$ 432,302	\$ 156,881
2021	589,183	447,432	141,751
2022	589,182	463,092	126,090
2023	589,183	479,301	109,882
2024	589,183	496,076	93,107
2025-2028	2,356,730	2,164,114	192,616
	<u>\$ 5,302,644</u>	<u>\$ 4,482,317</u>	<u>\$ 820,327</u>

**Hospital District No. 6 of Harper County, Kansas
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**Notes to Financial Statements
December 31, 2019 and 2018**

Capital Lease Obligations

The Health Center is obligated under leases for buildings and equipment that are accounted for as capital leases. A schedule of the capital assets and accumulated depreciation under capital leases at December 31, 2019 and 2018, follows:

	2019	2018
Buildings	\$ 410,600	\$ 410,600
Equipment	794,758	410,186
	1,205,358	820,786
Less accumulated depreciation	705,169	627,981
	\$ 500,189	\$ 192,805

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.70% to 7.45%, together with the present value of the future minimum lease payments as of December 31, 2019:

2020	\$ 150,985
2021	120,974
2022	111,777
2023	111,778
2024	36,136
Total minimum lease payments	531,650
Less amount representing interest	53,330
	\$ 478,320

Note 9: 340B Drug Pricing Program

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of \$979,372 and \$284,730 for the years ending December 31, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Health Center recorded expenses related to the 340B Program of \$382,415 and \$172,106 for the years ending December 31, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. The 340B Program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

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Note 10: Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Plan Description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

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

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

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

The Health Center's employees participate in the Local group.

Benefits Provided

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

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

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

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Health Center's contractually required contribution rate for the years ended December 31, 2019 and 2018, was 8.89% and 8.39% of annual payroll, respectively. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Health Center's contributions to KPERS for the years ended December 31, 2019 and 2018, were \$794,641 and \$735,733, respectively.

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

At December 31, 2019 and 2018, the Health Center reported a liability of \$6,240,064 and \$6,223,384, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018, respectively. The Health Center's proportion of the net pension liability was based on the ratio of the Health Center's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2019, the Health Center's proportion was 0.446557%, which was an increase of 0.000049% from its proportion measured as of June 30, 2018, of 0.446508%. At June 30, 2017, the proportion was 0.449586%.

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For the years ended December 31, 2019 and 2018, the Health Center recognized pension expense of \$828,504 and \$576,412, respectively. At December 31, 2019 and 2018, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,659	\$ 157,151
Net difference between projected and actual earnings on pension plan investments	146,809	-
Changes of assumptions	190,719	12,647
Changes in proportion	2,275,378	2,402,332
Health Center's contributions subsequent to the measurement date	340,363	-
Total	\$ 2,966,928	\$ 2,572,130

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,469	\$ 176,343
Net difference between projected and actual earnings on pension plan investments	145,585	-
Changes of assumptions	269,499	29,970
Changes in proportion	1,381,199	1,459,816
Health Center's contributions subsequent to the measurement date	366,671	-
Total	\$ 2,185,423	\$ 1,666,129

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At December 31, 2019, the Health Center reported \$340,363 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to pensions will be recognized in pension expense as follows:

2020		\$	126,314
2021			(119,993)
2022			11,302
2023			38,118
2024			(1,306)
			54,435
		\$	54,435

Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including inflation	3.5% to 12%	3.5% to 12%
Investment rate of return, net of pension plan investment expense, including inflation	7.75%	7.75%

The mortality rates used in both the December 31, 2018 and December 31, 2017, valuations were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The actuarial assumptions used in both the December 31, 2018 and 2017, valuations were based on the results of an actuarial experience study for the three-year period ended December 31, 2015.

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

Asset Class	2019		2018	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.85%	47%	6.85%
Fixed income	13%	1.25%	13%	1.25%
Yield driven	8%	6.55%	8%	6.55%
Real return	11%	1.71%	11%	1.71%
Real estate	11%	5.05%	11%	5.05%
Alternatives	8%	9.85%	8%	9.85%
Short-term investments	2%	-0.25%	2%	-0.25%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for both the years ended June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The Health Center's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Health Center's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Health Center's proportionate share of the net pension liability	\$ 9,319,666	\$ 6,240,064	\$ 3,664,033

Pension Plan Fiduciary Net Position

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

Note 11: Other Postemployment Benefit Plan

Plan Description

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

Benefits Provided

The OPEB Plan provides LTD and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are

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payable while disability continues until the member’s 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member’s retirement, whichever first occurs. Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member’s annual rate of compensation at the time of disability, or (b) the member’s previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

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

	2019	2018
Active employees	158	172
Disabled employees	2	9
	160	181

Total OPEB Liability

The Health Center’s total OPEB liability of \$150,515 and \$488,000 was measured as of June 30, 2019 and 2018, for the years ended December 31, 2019 and 2018, respectively, and was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, and rolled forward to June 30, 2019 and 2018, respectively.

The total OPEB liability in the December 31, 2018 and 2017, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75%	2.75%
Discount rate	3.50%	3.87%
Salary increases, including inflation	3.50% to 10%	3.50% to 10%

The discount rate was based on the Bond Buyer General Obligation 20-Year Municipal Bond Index. The discount rate changed from 3.58% in 2017 to 3.87% in 2018 to 3.50% in 2019.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2019 Mortality Tables for the December 31, 2018, actuarial valuation.

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

The actuarial assumptions used in the December 31, 2018, valuation were based on the results of an actuarial experience study for 2013 - 2015. The actuarial assumptions used in the December 31, 2017, valuation were based on the results of an actuarial experience study for 2014 - 2016.

Changes in the Total OPEB Liability

Changes in the total OPEB liability are:

	2019	2018
Balance, beginning of year	\$ 488,000	\$ 487,654
Changes for the year:		
Service cost	28,859	29,115
Interest	7,047	17,442
Differences between expected and actual experience	(14,313)	19,210
Changes of assumptions	(308,407)	(5,792)
Benefit payments	(50,671)	(59,629)
Net changes	(337,485)	346
Balance, end of year	\$ 150,515	\$ 488,000

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

The total OPEB liability of the Health Center, at December 31, 2019, has been calculated using a discount rate of 3.50%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Health Center's total OPEB liability	\$ 153,528	\$ 150,515	\$ 146,921

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

**Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center**

**Notes to Financial Statements
December 31, 2019 and 2018**

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

For the years ended December 31, 2019 and 2018, the Health Center recognized OPEB expense of \$33,856 and \$46,320, respectively. At December 31, 2019 and 2018, the Health Center reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,351
Changes of assumptions	1,145	3,575
	<u>\$ 1,145</u>	<u>\$ 17,926</u>
Total	<u>\$ 1,145</u>	<u>\$ 17,926</u>
	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,932	\$ 1,705
Changes of assumptions	-	17,658
	<u>\$ 18,932</u>	<u>\$ 19,363</u>
Total	<u>\$ 18,932</u>	<u>\$ 19,363</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	\$ (2,050)
2021	(2,050)
2022	(2,050)
2023	(2,050)
2024	(2,050)
Thereafter	(6,531)
	<u>\$ (16,781)</u>

Hospital District No. 6 of Harper County, Kansas
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Notes to Financial Statements
December 31, 2019 and 2018

Note 12: Harper County Health Foundation

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose primary purpose is to raise funds for the support of health and health care programs for the Health Center.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At December 31, 2019, there were no net assets with donor restrictions.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019, the Foundation had no cash equivalents.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value. At December 31, 2019, substantially all investments consisted of stocks and mutual funds.

Hospital District No. 6 of Harper County, Kansas
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December 31, 2019 and 2018

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 includes assets with quoted prices in active markets for identical assets. At December 31, 2019, all investments were included in level 1 of the hierarchy.

Investment return that is initially restricted by donor stipulation and for which the restrictions will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statement of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the statement of activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Hospital District No. 6 of Harper County, Kansas
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Notes to Financial Statements
December 31, 2019 and 2018

Related Entity

The Foundation works closely with the Health Center. Start-up funds were provided by two foundations previously organized to support Harper Hospital District No. 6 of Harper County, Kansas and Harper Hospital District No. 5 of Harper County, Kansas. As discussed above, much of the funds raised by the Foundation are distributed to the Health Center. The Health Center appoints two members to the Foundation's Board of Directors.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at December 31, 2019.

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 Health Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Health Center received approximately \$546,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain the stimulus payments.

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

On April 24, 2020, the Health Center obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$1,880,000 at 1.00% interest with a maturity date of April 24, 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.

Hospital District No. 6 of Harper County, Kansas
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Notes to Financial Statements
December 31, 2019 and 2018

On May 6, 2020, the Health Center received approximately \$3,453,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and will continue to evaluate the amount of funding that will be retained by the Health Center.

On May 20, 2020, the Health Center received approximately \$198,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and will continue to evaluate the amount of funding that will be retained by the Health Center.

Note 14: Future Change in Accounting Principle

Leases

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

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

Required Supplementary Information

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Schedule of the Health Center's Proportionate Share of the Net Pension Liability
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	<u>2019 *</u>	<u>2018 *</u>	<u>2017 *</u>	<u>2016 *</u>	<u>2015 *</u>	<u>2014 *</u>
Health Center's proportion of the net pension liability	0.446557%	0.446508%	0.449586%	0.226511%	0.230406%	0.220926%
Health Center's proportionate share of the net pension liability	\$ 6,240,064	\$ 6,223,384	\$ 6,512,053	\$ 3,504,192	\$ 3,025,332	\$ 2,719,186
Health Center's covered employee payroll	\$ 8,125,172	\$ 7,747,395	\$ 7,841,972	\$ 3,948,785	\$ 3,812,145	\$ 3,638,694
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.80%	80.33%	83.04%	88.74%	79.36%	74.73%
Plan fiduciary net position as a percentage of the total pension liability	69.88%	68.88%	67.12%	65.10%	64.95%	66.60%

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

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

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Schedule of the Health Center's Pension Contributions
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	<u>2019 *</u>	<u>2018 *</u>	<u>2017 *</u>	<u>2016 *</u>	<u>2015 *</u>	<u>2014 *</u>
Contractually required contribution	\$ 794,641	\$ 735,733	\$ 651,880	\$ 337,098	\$ 391,618	\$ 332,040
Contribution in relation to the contractually required contribution	<u>794,641</u>	<u>735,733</u>	<u>651,880</u>	<u>337,098</u>	<u>391,618</u>	<u>332,040</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Health Center's covered-employee payroll	\$ 8,034,795	\$ 7,835,308	\$ 7,025,219	\$ 3,828,710	\$ 4,066,127	\$ 3,678,008
Contributions as a percentage of covered-employee payroll	9.89%	9.39%	9.28%	8.80%	9.63%	9.03%

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

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

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Schedule of Changes in the Health Center's Total OPEB Liability
and Related Ratios
Last Ten Fiscal Years

	2019 *	2018 *	2017 *
Total OPEB Liability			
Service cost	\$ 28,859	\$ 29,115	\$ 29,520
Interest	7,047	17,442	14,962
Differences between expected and actual experience	(14,313)	19,210	-
Changes in assumptions	(308,407)	(5,792)	(15,709)
Benefit payments	<u>(50,671)</u>	<u>(59,629)</u>	<u>(72,723)</u>
Net Change in Total OPEB Liability	(337,485)	346	(43,950)
Health Center's Total OPEB Liability - Beginning	<u>488,000</u>	<u>487,654</u>	<u>531,604</u>
Health Center's Total OPEB Liability - Ending	<u><u>\$ 150,515</u></u>	<u><u>\$ 488,000</u></u>	<u><u>\$ 487,654</u></u>
Health Center's Covered-employee Payroll	\$ 7,661,795	\$ 7,658,048	\$ 7,290,101
Health Center's Total OPEB Liability as a Percentage of Covered-employee Payroll	1.96%	6.37%	6.69%
Changes of Assumptions:			
Discount rate	3.50%	3.87%	3.58%

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Supplementary Information

Hospital District No. 6 of Harper County, Kansas
d/b/a Patterson Health Center
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2019

	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Net patient service revenue	\$ 12,471,708	\$ 15,198,300	\$ (2,726,592)
Other	<u>1,551,088</u>	<u>270,000</u>	<u>1,281,088</u>
Total revenue	14,022,796	15,468,300	(1,445,504)
Operating expenses, less depreciation and amortization including interest expense	<u>21,072,135</u>	<u>18,385,444</u>	<u>2,686,691</u>
Operating loss before tax support	<u><u>\$ (7,049,339)</u></u>	<u><u>\$ (2,917,144)</u></u>	<u><u>\$ (4,132,195)</u></u>