

Hospital District No. 6 of Harper County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Hospital District No. 6 of Harper County, Kansas
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Hospital District No. 6 of Harper County, Kansas
Anthony, Kansas

Report on Financial Statements

We have audited the accompanying financial statements of Hospital District No. 6 of Harper County, Kansas (the Medical Center), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Hospital District No. 6 of Harper County, Kansas 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 Medical Center's basic financial statements. The supplementary schedules, including The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget and Schedule of Expenditures of Federal Awards are the responsibility of management and were 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
May 30, 2019

Hospital District No. 6 of Harper County, Kansas
Balance Sheets
December 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Current Assets		<i>(As Restated)</i>
Cash	\$ 2,721,566	\$ 1,586,015
Restricted cash	68,925	20,762
Patient accounts receivable, net of allowance; 2018 - \$1,146,051, 2017 - \$1,035,223	2,258,844	2,719,963
Property and sales taxes receivable	1,589,596	1,208,655
Estimated amounts due from Medicare	13,720	335,000
Supplies	703,750	692,206
Prepaid expenses and other	212,108	246,119
Total current assets	7,568,509	6,808,720
Noncurrent Deposits		
Cash - project fund	17,027,414	-
Certificates of deposit	1,771,774	1,506,822
Total noncurrent deposits	18,799,188	1,506,822
Contributions Receivable for Purchase of Capital Assets	-	33,862,982
Capital Assets, Net	28,047,669	6,854,900
Total assets	54,415,366	49,033,424
Deferred Outflows of Resources - Pension		
Pension	2,185,423	1,202,771
Other postemployment benefits	18,932	-
Total deferred outflows of resources	2,204,355	1,202,771
Total assets and deferred outflows of resources	\$ 56,619,721	\$ 50,236,195

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current Liabilities		<i>(As Restated)</i>
Current maturities of long-term debt	\$ 566,346	\$ 143,534
Accounts payable	476,393	265,171
Accrued expenses	989,701	833,334
Estimated amounts due to Medicare	600,000	605,000
Estimated self-insurance costs	82,810	63,498
	<hr/>	<hr/>
Total current liabilities	2,715,250	1,910,537
Long-term Debt	6,771,930	2,436,597
Net Pension Liability	6,223,384	6,512,053
Total Other Postemployment Benefits Liability	488,000	487,654
	<hr/>	<hr/>
Total liabilities	16,198,564	11,346,841
Deferred Inflows of Resources		
Pension	1,666,129	549,692
Other postemployment benefits	19,363	14,086
Property taxes	1,643,598	1,098,099
	<hr/>	<hr/>
Total deferred inflows of resources	3,329,090	1,661,877
Net Position (Deficit)		
Net investment in capital assets	37,736,807	38,137,751
Unrestricted (deficit)	(644,740)	(910,274)
	<hr/>	<hr/>
Total net position	37,092,067	37,227,477
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Total liabilities, deferred inflows of resources and net position	\$ 56,619,721	\$ 50,236,195
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Hospital District No. 6 of Harper County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
		<i>(As Restated)</i>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$679,349, 2017 - \$321,431	\$ 13,918,607	\$ 7,769,019
Other revenues	1,115,532	285,585
Total operating revenues	15,034,139	8,054,604
Operating Expenses		
Salaries and wages	8,514,735	4,891,698
Employee benefits	1,954,916	1,139,333
Purchased services and professional fees	1,630,027	1,096,882
Supplies and other	4,651,774	2,442,243
Depreciation	647,726	422,000
Total operating expenses	17,399,178	9,992,156
Operating Loss	(2,365,039)	(1,937,552)
Nonoperating Revenues (Expenses)		
Interest income	66,394	96,780
Interest expense	(90,561)	(50,900)
Noncapital contributions	36,124	52,169
Property and sales tax appropriations	2,135,251	1,493,026
Total nonoperating revenues	2,147,208	1,591,075
Deficiency of Revenue Over Expenses Before Capital Grants and Gifts and Transfers	(217,831)	(346,477)
Capital Grants and Gifts	82,421	34,908,226
Special Item - Gain on Transfer from Hospital District No. 5	-	1,523,105
Increase (Decrease) in Net Position	(135,410)	36,084,854
Net Position, Beginning of Year, as Previously Reported	37,227,477	1,674,227
Change in Accounting Principle - GASB No. 75	-	(531,604)
Net Position, Beginning of Year, as Restated	37,227,477	1,142,623
Net Position, End of Year	\$ 37,092,067	\$ 37,227,477

Hospital District No. 6 of Harper County, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
		<i>(As Restated)</i>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 14,793,876	\$ 7,998,658
Payments to suppliers and contractors	(6,145,982)	(3,436,006)
Payments to employees	(10,462,165)	(6,126,883)
Other receipts, net	1,280,090	135,673
Net cash used in operating activities	(534,181)	(1,428,558)
Cash Flows From Noncapital Financing Activities		
Noncapital grants and gifts	36,124	52,169
Cash transferred from Hospital District No. 5	-	1,152,277
Property and sales taxes supporting operations	2,135,251	1,493,026
Net cash provided by noncapital financing activities	2,171,375	2,697,472
Cash Flows From Capital and Related Financing Activities		
Proceeds from the issuance of debt	4,900,000	-
Principal paid on long-term debt	(141,855)	(93,146)
Capital grants and gifts	33,945,403	1,045,244
Interest paid on long-term debt	(90,561)	(50,900)
Purchase of capital assets	(21,840,495)	(937,928)
Net cash provided by (used in) capital and related financing activities	16,772,492	(36,730)
Cash Flows From Investing Activities		
Purchase of certificates of deposit	(1,363,931)	(1,363,931)
Proceeds from maturities of certificates of deposit	1,098,979	1,231,536
Interest on deposits	66,394	96,780
Net cash used in investing activities	(198,558)	(35,615)
Increase in Cash	18,211,128	1,196,569
Cash, Beginning of Year	1,606,777	410,208
Cash, End of Year	\$ 19,817,905	\$ 1,606,777
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,721,566	\$ 1,586,015
Cash - project fund	17,027,414	-
Restricted cash	68,925	20,762
	\$ 19,817,905	\$ 1,606,777

Hospital District No. 6 of Harper County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash		<i>(As Restated)</i>
Used in Operating Activities		
Operating loss	\$ (2,365,039)	\$ (1,937,552)
Depreciation	647,726	422,000
Gain on disposal of assets	-	85,583
Provision for uncollectible accounts	679,349	321,431
Changes in operating assets and liabilities		
Patient accounts receivable	(218,230)	(987,907)
Inventories	(11,544)	(1,686)
Prepaid expenses and other assets	34,011	21,460
Accounts payable and accrued liabilities	551,459	(185,791)
Estimated third-party payer settlements	316,280	902,000
Net pension liability	(288,669)	(368,851)
Total other postemployment benefits liability	346	(43,950)
Deferred outflows of resources - pension and OPEB	(1,001,584)	190,717
Deferred inflows of resources - pension and OPEB	1,121,714	153,988
	\$ (534,181)	\$ (1,428,558)
Noncash Investing, Capital and Financing Activities		
Issuance of Hospital Revenue Bond - Series 2017	\$ -	\$ 1,810,000
<p>The assets, liabilities and deferred inflows and outflows of resources of Hospital District No. 5 of Harper County, Kansas were transferred on November 1, 2017. In conjunction with the transfer, assets, liabilities and deferred inflows and outflows of resources were assumed as follows:</p>		
Cash		\$ 1,152,277
Patient accounts receivable, net		1,087,977
Estimated amounts due from Medicare		335,000
Supplies		516,785
Prepaid expenses and other		200,536
Capital assets		3,813,141
Total assets		7,105,716
Deferred outflows of resources - pension		563,558
Accounts payable		87,413
Accrued expenses		586,223
Long-term debt and capital lease obligations		1,827,391
Net pension liability		3,376,712
Total liabilities		5,877,739
Deferred inflows of resources - pension		268,430
Gain on transfer		\$ 1,523,105

Hospital District No. 6 of Harper County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

Noncash Investing, Capital and Financing Activities (Continued)

	<u>2017</u>
	<i>(As Restated)</i>
Net position transferred from Hospital District No. 5 of Harper County, Kansas are included in the following statements of revenues, expenses and changes in net position captions:	
Special Item - Gain on Transfer from Hospital District No. 5	<u>\$ 1,523,105</u>

Hospital District No. 6 of Harper County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Reporting Entity

Hospital District No. 6 of Harper County, Kansas, (the Medical Center), was organized for the purpose of providing health care services to patients in Harper County, Kansas and the surrounding area. The Medical Center is governed by a Board of Directors elected by the registered voters of the District. The Medical 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 will continue as a tax district and collect taxes through December 31, 2018. All taxes collected by District 5 subsequent to October 31, 2017, will be passed along to District 6 in accordance with the agreement. Effective January 1, 2019, District 6 will absorb District 5 from a tax levying authority standpoint.

Basis of Accounting and Presentation

The financial statements of the Medical 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 Medical 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.

Budgetary Principles

The Medical 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.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017. 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 Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, there were no cash equivalents.

Property and Sales Tax Revenues

The Medical Center received approximately 12% in 2018 and 3% in 2017 of its financial support from property and sales taxes. One hundred percent of those funds were used to support operations of the Medical Center in both years.

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 are collected by Anthony, Kansas and Harper, Kansas and remitted to the Medical Center monthly.

The 2018 and 2017 tax revenues are as follows:

	<u>2018</u>	<u>2017</u>
Property	\$ 1,123,935	\$ 1,162,023
Property - from District 5	732,802	128,478
Sales - Anthony	158,964	176,600
Sales - Harper	<u>119,550</u>	<u>25,925</u>
	<u>\$ 2,135,251</u>	<u>\$ 1,493,026</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Risk Management

The Medical 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.

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.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of 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. Effective January 1, 2019, commercial insurance coverage was purchased for employee health.

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

Contributions Receivable

Contributions receivable are to be used for constructing and equipping a new hospital facility. The contributions are all from one donor and no allowance for uncollectible contributions has been recorded.

Supplies

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

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Capital Assets

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

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

Capital Asset Impairment

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

Compensated Absences

Medical 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 Medical 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.

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

The Medical 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.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Defined Benefit Other Postemployment Benefit Plan

The Medical 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 Medical 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 Medical 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 Medical Center has agreements with third-party payers that provide for payments to the Medical 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.

Uncompensated Care

The Medical Center provides care at amounts less than its established rates to patients meeting certain criteria under its uncompensated care policy. Because the Medical 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 Medical 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 Medical Center has also obtained 501(c)(3) status with the IRS.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

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 (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Medical Center's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. 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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the changes in financial position.

Implementation of New Accounting Principle

In 2018, the Medical Center implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures by state and local governments for postemployment benefits other than pensions. For defined benefit other postemployment benefit plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In accordance with GASB 75, the December 31, 2017 financial statements were restated to report the adoption of the standard. The effects of the restatement are as follows:

Net position, January 1, 2017, as previously reported	\$ 1,674,227
Total other postemployment benefits liability at January 1, 2017	<u>(531,604)</u>
Net position, January 1, 2017, as restated	<u><u>\$ 1,142,623</u></u>

Increase in net position for the year ended December 31, 2017, was decreased by \$29,864. Total other postemployment benefits liability and deferred inflows of resources were also recorded at December 31, 2017, as described in *Note 10*.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 2: Net Patient Service Revenue

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

Medicare. The Medical 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 Medical 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 Medical 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 64% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, 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 Medical 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 Medical 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 Medical 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, 2018 and 2017, respectively, \$0 and \$456,136 of the Medical Center's bank balances of \$21,782,960 and \$4,123,535, respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 456,136</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 21,589,279	\$ 3,111,021
Restricted cash deposits	-	2,178
Petty cash	400	400
	<u>\$ 21,589,679</u>	<u>\$ 3,113,599</u>
 Included in the following balance sheet captions		
Cash	\$ 2,721,566	\$ 1,586,015
Cash - project fund	17,027,414	-
Restricted cash	68,925	20,762
Noncurrent deposits	1,771,774	1,506,822
	<u>\$ 21,589,679</u>	<u>\$ 3,113,599</u>

Note 4: Patient Accounts Receivable

The Medical 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:

	2018	2017
Medicare	\$ 744,058	\$ 1,306,727
Medicaid	99,310	28,233
Other third-party payers	1,039,952	959,774
Patients	1,521,575	1,460,452
	<u>3,404,895</u>	<u>3,755,186</u>
Less allowance for uncollectible accounts	<u>1,146,051</u>	<u>1,035,223</u>
	<u>\$ 2,258,844</u>	<u>\$ 2,719,963</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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>
	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 5,104	\$ 245,606	\$ -	\$ -	\$ 250,710
Land improvements	412,431	-	-	-	412,431
Buildings	3,917,542	3,314,838	-	-	7,232,380
Construction in process	85,583	840,188	(85,583)	-	840,188
Equipment	5,167,604	350,437	-	-	5,518,041
	<u>9,588,264</u>	<u>4,751,069</u>	<u>(85,583)</u>	<u>-</u>	<u>14,253,750</u>
Less accumulated depreciation					
Land improvements	270,810	19,013	-	-	289,823
Buildings	2,515,075	147,063	-	-	2,662,138
Equipment	4,190,965	255,924	-	-	4,446,889
	<u>6,976,850</u>	<u>422,000</u>	<u>-</u>	<u>-</u>	<u>7,398,850</u>
Capital Assets, Net	<u>\$ 2,611,414</u>	<u>\$ 4,329,069</u>	<u>\$ (85,583)</u>	<u>\$ -</u>	<u>\$ 6,854,900</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 6: Medical Malpractice Coverage and Claims

The Medical 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 Medical 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 Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is 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 Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 63,498	\$ 94,282
Current year claims incurred and changes in estimates for claims incurred in prior years	760,480	314,338
Claims and expenses paid	<u>(741,168)</u>	<u>(345,122)</u>
Balance, end of year	<u>\$ 82,810</u>	<u>\$ 63,498</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 8: Long-term Obligations

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

	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
	\$ 2,580,131	\$ 4,900,000	\$ 141,855	\$ 7,338,276	\$ 566,346
	2017				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Hospital revenue bonds -					
Series 2014	\$ 426,607	\$ -	\$ 25,658	\$ 400,949	\$ 26,684
Series 2017	-	1,810,000	-	1,810,000	42,073
Capital lease obligations	419,279	17,391	67,488	369,182	74,777
	\$ 845,886	\$ 1,827,391	\$ 93,146	\$ 2,580,131	\$ 143,534

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

Effective July 14, 2014, the Medical 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 new issue began July 25, 2015, and extend through July 25, 2029.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

The Medical Center’s debt service requirements for the USDA bond as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 42,722	\$ 27,751	\$ 14,971
2020	42,722	28,861	13,861
2021	42,722	30,016	12,706
2022	42,722	31,217	11,505
2023	42,722	32,465	10,257
2024-2028	213,610	182,876	30,734
2029	42,722	41,079	1,643
	<u>\$ 469,942</u>	<u>\$ 374,265</u>	<u>\$ 95,677</u>

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

Effective November 1, 2017, the Medical 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 new issue began October 26, 2018, and extend through October 26, 2047.

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

Effective December 20, 2018, the Medical 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 new issue begin December 20, 2019, and extend through December 20, 2028.

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 589,183	\$ 417,683	\$ 171,500
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
2024-2028	2,945,913	2,660,190	285,723
	<u>\$ 5,891,827</u>	<u>\$ 4,900,000</u>	<u>\$ 991,827</u>

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Capital Lease Obligations

The Medical 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, 2018 and 2017, follows:

	2018	2017
Buildings	\$ 410,600	\$ 410,600
Equipment	410,186	410,186
	820,786	820,786
Less accumulated depreciation	627,981	567,737
	\$ 192,805	\$ 253,049

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 4.50% to 7.99%, together with the present value of the future minimum lease payments as of December 31, 2018:

2019	\$ 96,116
2020	88,556
2021	59,758
2022	49,349
2023	49,349
2024	1,242
Total minimum lease payments	344,370
Less amount representing interest	48,286
Present value of future minimum lease payments	\$ 296,084

Note 9: 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.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

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 Medical 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.

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.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

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 Medical Center's contractually required contribution rate for the years ended December 31, 2018 and 2017, was 8.39% and 8.46% 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 Medical Center's contributions to KPERS for the years ended December 31, 2018 and 2017, were \$735,640 and \$651,880, respectively. The increase in contributions is due primarily to the merger with District 5.

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

At December 31, 2018 and 2017, the Medical Center reported a liability of \$6,223,384 and \$6,512,053, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2017 and 2016, respectively, rolled forward to June 30, 2018 and 2017, respectively. The Medical Center's proportion of the net pension liability was based on the ratio of the Medical Center's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2018, the Medical Center's proportion was 0.446508%, which was a decrease of 0.003078% from its proportion measured as of June 30, 2017, of 0.449586%. At June 30, 2016, the proportion was 0.226511%.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

For the years ended December 31, 2018 and 2017, the Medical Center recognized pension expense of \$576,412 and \$692,323, respectively. At December 31, 2018 and 2017, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	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
Medical Center's contributions subsequent to the measurement date	366,671	-
Total	\$ 2,185,423	\$ 1,666,129
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,496	\$ 225,174
Net difference between projected and actual earnings on pension plan investments	204,272	-
Changes of assumptions	350,701	47,619
Changes in proportion	304,566	276,899
Medical Center's contributions subsequent to the measurement date	311,736	-
Total	\$ 1,202,771	\$ 549,692

At December 31, 2018, the Medical Center reported \$366,671 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions will be recognized in pension expense as follows:

2019	\$ 262,420
2020	84,916
2021	(161,368)
2022	7,637
2023	(40,982)
	\$ 152,623

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Actuarial Assumptions

The total pension liability in the December 31, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
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, 2017 and December 31, 2016, 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, 2017 and 2016, valuations were based on the results of an actuarial experience study for the three-year period ended December 31, 2015.

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	<u>2018</u>		<u>2017</u>	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.85%	47%	6.80%
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%
	<u>100%</u>		<u>100%</u>	

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for both the years ended June 30, 2018 and 2017. 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.

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

The Medical Center's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Medical 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%)
Medical Center's proportionate share of the net pension liability	\$ 9,127,500	\$ 6,223,384	\$ 3,769,143

Pension Plan Fiduciary Net Position

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

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 10: Other Postemployment Benefit Plan

Plan Description

The Medical 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 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:

	<u>2018</u>	<u>2017</u>
Active employees	172	172
Disabled employees	9	10
	<u>181</u>	<u>182</u>

Hospital District No. 6 of Harper County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Total OPEB Liability

The Medical Center’s total OPEB liability of \$488,000 and \$487,654 was measured as of June 30, 2018 and 2017, for the years ended December 31, 2018 and 2017, respectively, and was determined by actuarial valuations as of December 31, 2017 and 2016, respectively, and rolled forward to June 30, 2018 and 2017, respectively.

The total OPEB liability in the December 31, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Inflation	2.75%	2.75%
Discount rate	3.87%	3.58%
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 2.85% in 2016 to 3.58% in 2017 to 3.87% in 2018.

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.

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-2017 Mortality Tables for the December 31, 2016, actuarial valuation.

The actuarial assumptions used in the December 31, 2017 and 2016, valuations were based on the results of an actuarial experience study for 2014 - 2016.

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Changes in the Total OPEB Liability

Changes in the total OPEB liability are:

	2018	2017
Balance, beginning of year	\$ 487,654	\$ 531,604
Changes for the year:		
Service cost	29,115	29,520
Interest	17,442	14,962
Differences between expected and actual experience	19,210	-
Changes of assumptions	(5,792)	(15,709)
Benefit payments	(59,629)	(72,723)
Net changes	346	(43,950)
Balance, end of year	\$ 488,000	\$ 487,654

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

The total OPEB liability of the Medical Center, at December 31, 2018, has been calculated using a discount rate of 3.87%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Medical Center's total OPEB liability	\$ 508,348	\$ 488,000	\$ 468,764

The total OPEB liability of the Medical Center, at December 31, 2017, has been calculated using a discount rate of 3.58%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Medical Center's total OPEB liability	\$ 509,239	\$ 487,654	\$ 467,321

The total OPEB liability of the Medical 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

Notes to Financial Statements

December 31, 2018 and 2017

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

For the years ended December 31, 2018 and 2017, the Medical Center recognized OPEB expense of \$46,320 and \$42,859, respectively. At December 31, 2018 and 2017, the Medical Center reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,932	\$ 1,705
Changes of assumptions	-	17,658
Total	\$ 18,932	\$ 19,363
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	14,086
Total	\$ -	\$ 14,086

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to OPEB will be recognized in OPEB expense as follows:

2019	\$ (237)
2020	(237)
2021	(237)
2022	(237)
2023	(237)
Thereafter	754
	\$ (431)

Hospital District No. 6 of Harper County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

Note 11: Hospital Foundation

Anthony Hospital and Clinic Association Foundation (Foundation) is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting the Medical Center and assisting community activities relating to providing health care services. The unaudited financial position and results of operations of the Foundation as of and for the years ended December 31, 2018 and 2017, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Investments	<u>\$ 884,876</u>	<u>\$ 3,295,999</u>
Net assets	<u>\$ 884,876</u>	<u>\$ 3,295,999</u>
Revenue	\$ 46,095	\$ 3,617,159
Expenses	<u>2,396,905</u>	<u>1,235,399</u>
Revenue over (under) expenses	<u>\$ (2,350,810)</u>	<u>\$ 2,381,760</u>

The Foundation provided \$2,383,468 and \$1,011,251 of support to the Medical Center during the years ended December 31, 2018 and 2017, respectively.

Note 12: Future Change in Accounting Principle

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. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. 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 Medical Center is evaluating the impact the statement will have on the financial statements.

Required Supplementary Information

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

	<u>2018[*]</u>	<u>2017[*]</u>	<u>2016[*]</u>	<u>2015[*]</u>	<u>2014[*]</u>
Medical Center's proportion of the net pension liability	0.446508%	0.449586%	0.226511%	0.230406%	0.220926%
Medical Center's proportionate share of the net pension liability	\$6,223,384	\$6,223,384	\$3,504,192	\$3,025,332	\$2,719,186
Medical Center's covered-employee payroll	\$7,747,395	\$7,841,972	\$3,948,785	\$3,812,145	\$3,638,694
Medical Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	80.33%	79.36%	88.74%	79.36%	74.73%
Plan fiduciary net position as a percentage of the total pension liability	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
Schedule of the Medical Center's Pension Contributions
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	<u>2018[*]</u>	<u>2017[*]</u>	<u>2016[*]</u>	<u>2015[*]</u>	<u>2014[*]</u>
Contractually required contribution	\$ 735,733	\$ 651,880	\$ 337,098	\$ 391,618	\$ 332,040
Contribution in relation to the contractually required contribution	<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>
Medical Center's covered-employee payroll	\$7,835,308	\$7,025,219	\$3,828,710	\$4,066,127	\$3,678,008
Contributions as a percentage of covered-employee payroll	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
Schedule of Changes in the Medical Center's Total OPEB Liability
and Related Ratios
Last Ten Fiscal Years

	<u>2018 *</u>	<u>2017 *</u>
Total OPEB Liability		
Service cost	\$ 29,115	\$ 29,520
Interest	17,442	14,962
Differences between expected and actual experience	19,210	-
Changes in assumptions	(5,792)	(15,709)
Benefit payments	<u>(59,629)</u>	<u>(72,723)</u>
Net Change in Total OPEB Liability	346	(43,950)
Medical Center's Total OPEB Liability - Beginning	<u>487,654</u>	<u>531,604</u>
Medical Center's Total OPEB Liability - Ending	<u><u>\$ 488,000</u></u>	<u><u>\$ 487,654</u></u>
Medical Center's Covered-Employee Payroll	\$ 7,658,048	\$ 7,290,101
Medical Center's Total OPEB Liability as a percentage of covered-employee payroll	6.37%	6.69%

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

Changes of assumptions: Discount rate changed from 3.58% for 2017 to 3.87% for 2018 and from 2.85% for 2016 to 3.58% for 2017.

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
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2018

	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Net patient service revenue	\$ 14,793,876	\$ 13,385,150	\$ 1,408,726
Other	<u>1,727,425</u>	<u>1,320,240</u>	<u>407,185</u>
Total revenue	16,521,301	14,705,390	1,815,911
Operating expenses, less depreciation and amortization including interest expense	<u>16,698,708</u>	<u>18,019,076</u>	<u>(1,320,368)</u>
Operating loss before tax support	<u>\$ (177,407)</u>	<u>\$ (3,313,686)</u>	<u>\$ 3,136,279</u>

Hospital District No. 6 of Harper County, Kansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture: Community Facilities Loans and Grant Cluster	10.766		\$ -	\$ 4,900,000

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Hospital District No. 6 of Harper County, Kansas under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Hospital District No. 6 of Harper County, Kansas, it is not intended to and does not present the balance sheet, changes in net position, or cash flows of Hospital District No. 6 of Harper County, Kansas.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Medical Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The federal loan program listed in this Schedule is administered directly by the Medical Center, and balances and transactions relating to this program are included in the Medical Center's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. At December 31, 2018, the balance of the direct loan was \$4,900,000.

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Hospital District No. 6 of Harper County, Kansas
Anthony, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide, the financial statements of Hospital District No. 6 of Harper County, Kansas (Medical Center), which comprise the balance sheet as of December 31, 2018, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 30, 2019, which contained an emphasis of matter paragraph for the adoption of a new accounting standard.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Hospital District No. 6 of Harper County, Kansas
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
May 30, 2019

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Hospital District No. 6 of Harper County, Kansas
Anthony, Kansas

Report on Compliance for the Major Federal Program

We have audited Hospital District No. 6 of Harper County, Kansas's (Medical Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Hospital District No. 6 of Harper County, Kansas's major federal program for the year ended December 31, 2018. The Medical Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Hospital District No. 6 of Harper County, Kansas's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

Board of Directors
Hospital District No. 6 of Harper County, Kansas
(Continued)

Opinion on the Major Federal Program

In our opinion, Hospital District No. 6 of Harper County, Kansas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Hospital District No. 6 of Harper County, Kansas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
May 30, 2019

Hospital District No. 6 of Harper County, Kansas
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

Hospital District No. 6 of Harper County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2018

7. The Medical Center's major program was:

Cluster/Program	CFDA Number
Community Facilities Loans and Grant Cluster	10.766

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Medical Center qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Hospital District No. 6 of Harper County, Kansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018

Reference Number	Finding	Questioned Costs
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No matters are reportable.