

Morris County Hospital
A Component Unit of Morris County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2018 and 2017



Morris County Hospital
A Component Unit of Morris County, Kansas
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Morris County Hospital
Council Grove, Kansas

We have audited the accompanying financial statements of Morris County Hospital (Hospital), a component unit of Morris County, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morris County Hospital as of December 31, 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.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
May 21, 2019

Morris County Hospital
A Component Unit of Morris County, Kansas
Balance Sheets
December 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 743,269	\$ 890,314
Restricted cash	82,623	622,053
Short-term investments	407,801	567,415
Patient accounts receivable, net of allowance; 2018 - \$645,438; 2017 - \$520,576	2,553,487	2,121,527
Estimated amounts due from third-party payers	93,184	25,000
Other receivables	122,376	73,868
Supplies	335,336	298,672
Prepaid expenses	<u>237,529</u>	<u>247,051</u>
Total current assets	<u>4,575,605</u>	<u>4,845,900</u>
Noncurrent Cash and Investments		
Board designated for physician recruitment	62,373	62,106
Board designated for capital improvements	3,046,291	3,130,861
Held by trustee for debt service	<u>154,491</u>	<u>-</u>
	<u>3,263,155</u>	<u>3,192,967</u>
Capital Assets, Net	<u>8,920,589</u>	<u>6,004,079</u>
Physician Receivable	<u>135,193</u>	<u>164,485</u>
Total assets	<u>16,894,542</u>	<u>14,207,431</u>
Deferred Outflows of Resources	<u>99,167</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 16,993,709</u>	<u>\$ 14,207,431</u>

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 251,510	\$ 288,262
Accounts payable	610,174	225,078
Accrued payroll and withholdings	177,926	112,886
Accrued employee benefits	275,270	198,141
Accrued interest payable	47,832	13,895
Estimated amounts due to third-party payers	-	9,618
	<hr/>	<hr/>
Total current liabilities	1,362,712	847,880
Long-term Debt	<hr/>	<hr/>
	3,534,881	1,296,510
Total liabilities	<hr/>	<hr/>
	4,897,593	2,144,390
Net Position		
Net investment in capital assets	5,134,198	4,419,307
Restricted - expendable for		
Debt service	154,491	-
Capital acquisitions	82,623	622,053
Unrestricted	6,724,804	7,021,681
	<hr/>	<hr/>
Total net position	12,096,116	12,063,041
Total liabilities and net position	<hr/>	<hr/>
	\$ 16,993,709	\$ 14,207,431

Morris County Hospital
A Component Unit of Morris County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$646,303; 2017 - \$699,729	\$ 10,239,597	\$ 8,345,388
Other	173,533	432,785
	<u>10,413,130</u>	<u>8,778,173</u>
Operating Expenses		
Salaries and wages	4,146,105	3,406,168
Employee benefits	784,454	659,025
Supplies and other	1,600,237	1,714,823
Contracts	3,598,125	3,298,750
Depreciation and amortization	843,706	799,117
	<u>10,972,627</u>	<u>9,877,883</u>
	<u>(559,497)</u>	<u>(1,099,710)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Noncapital contributions	32,560	73,555
Noncapital appropriations - Morris County	405,132	397,296
Council Grove Assisted Living, LLC losses	(2,534)	(8,813)
Investment income	27,559	124,923
Interest expense	(80,715)	(52,383)
	<u>382,002</u>	<u>534,578</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(177,495)	(565,132)
Capital Grants and Gifts	<u>210,570</u>	<u>512,442</u>
Increase (Decrease) in Net Position	33,075	(52,690)
Net Position, Beginning of Year	<u>12,063,041</u>	<u>12,115,731</u>
Net Position, End of Year	<u>\$ 12,096,116</u>	<u>\$ 12,063,041</u>

Morris County Hospital
A Component Unit of Morris County, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	\$ 9,830,825	\$ 8,578,801
Payments to suppliers and contractors	(5,122,867)	(5,010,607)
Payments to employees	(4,788,390)	(4,129,384)
Other receipts, net	125,025	414,054
Net cash provided by (used in) operating activities	44,593	(147,136)
Noncapital Financing Activities		
Noncapital contributions	32,560	73,555
Noncapital appropriations - Morris County	405,132	397,296
Net cash provided by noncapital financing activities	437,692	470,851
Capital and Related Financing Activities		
Capital grants and gifts	210,570	512,442
Purchase of capital assets	(3,576,924)	(670,564)
Proceeds from issuance of revenue bonds	3,664,881	-
Principal paid on long-term debt	(1,463,262)	(279,220)
Interest paid on long-term debt	(46,778)	(53,100)
Net cash used in capital and related financing activities	(1,211,513)	(490,442)
Investing Activities		
Purchase of short-term investments	-	(93,293)
Purchase of investments	(179,794)	(603,012)
Proceeds from disposition of investments	266,953	-
Change in noncurrent investments	(267)	(17,426)
Physician guarantee payments	(71,698)	(63,495)
Investment income	27,559	124,923
Net cash provided by (used in) investing activities	42,753	(652,303)
Decrease in Cash and Cash Equivalents	(686,475)	(819,030)
Cash and Cash Equivalents, Beginning of Year	1,512,367	2,331,397
Cash and Cash Equivalents, End of Year	\$ 825,892	\$ 1,512,367

Morris County Hospital
A Component Unit of Morris County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 743,269	\$ 890,314
Restricted cash	82,623	622,053
	\$ 825,892	\$ 1,512,367
Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (559,497)	\$ (1,099,710)
Provision for uncollectible accounts	545,313	699,729
Depreciation and amortization	843,706	799,117
Changes in operating assets and liabilities		
Patient accounts receivable	(876,283)	(234,620)
Estimated amounts due from and to third-party payers	(77,802)	(231,696)
Other receivables	(48,508)	(18,731)
Supplies	(36,664)	(940)
Prepaid expenses	9,522	(48,563)
Accounts payable	221,637	52,469
Accrued payroll and withholdings	65,040	(32,946)
Accrued employee benefits	77,129	(31,245)
Deferred outflows of resources	(119,000)	-
Net cash provided by (used in) operating activities	\$ 44,593	\$ (147,136)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 163,459	\$ -

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Reporting Entity

Morris County Hospital (Hospital) is a county-owned, general hospital located in Council Grove, Kansas with a licensed bed capacity of 25 beds. The Hospital is considered a component unit of Morris County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and rural health clinic services to patients in the Morris County area.

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

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

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

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as county appropriations, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Morris County Hospital
A Component Unit of Morris County, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted of certificates of deposit and money market accounts.

Noncapital Appropriations – Morris County

The Hospital received approximately 4% of its 2018 and 2017 financial support from noncapital appropriations from Morris County property tax levy.

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

Risk Management

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

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

Investments and Investment Income

Noncurrent cash and investments include short-term investments (assets held by the Foundation), assets held by trustees, and designated assets set aside by the Board of Trustees for physician recruitment and capital improvements. The Board of Trustees retains control over these assets and may, at its discretion, subsequently use these assets for other purposes. Short-term investments (assets held by the Foundation) primarily consist of cash, mutual funds and other investments. All mutual funds are carried at fair value based upon readily determinable market values. Designated assets set aside by the Board of Trustees consist of certificates of deposit. Assets held by trustee are funds held for debt service.

Morris County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Employees with greater than 15 years of service vest in sick leave. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

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Notes to Financial Statements
December 31, 2018 and 2017

Bond Discount

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

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

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

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

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Electronic Health Records Incentive Program

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

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor. A mandatory payment reduction, known as sequestration, of 2% is in effect and will reduce payments until 2025.

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 56% and 63% of net patient service revenue are 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Morris County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

Note 3: Deposits and Investments

Deposits

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

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

At December 31, 2018 and 2017, respectively, \$3,235,458 and \$3,911,287 of the Hospital's bank balances of \$3,985,424 and \$4,808,592 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution	\$ 3,235,458	\$ 3,911,287

Investments

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

As of December 31, 2018 and 2017, the Hospital has the following investments, which are entirely held at the Foundation:

Type	2018	2017
	Fair Value	Fair Value
U.S. Treasury securities, maturities less than one year	\$ 9,578	\$ 18,623
Money market	154,491	-
Mutual funds - equity	286,698	430,588
Mutual funds - fixed income	144,698	148,843
Equity investment	(33,173)	(30,639)
	\$ 562,292	\$ 567,415

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

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

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

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

Summary of Carrying Values

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 3,934,456	\$ 4,705,234
Investments	562,292	567,415
Cash on hand	100	100
	<u>\$ 4,496,848</u>	<u>\$ 5,272,749</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 743,269	\$ 890,314
Restricted cash	82,623	622,053
Short-term investments	407,801	567,415
Board designated for physician recruitment	62,373	62,106
Board designated for capital improvements	3,046,291	3,130,861
Held by trustee	154,491	-
	<u>\$ 4,496,848</u>	<u>\$ 5,272,749</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 58,406	\$ 37,715
Net increase (decrease) in fair value of investments	(30,847)	87,208
	<u>\$ 27,559</u>	<u>\$ 124,923</u>

Morris County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	\$ 677,648	\$ 644,641
Medicaid	155,524	89,314
Blue Cross	332,309	353,592
Commercial	803,275	561,626
Self-pay	1,230,169	992,930
	3,198,925	2,642,103
Less allowance for uncollectible accounts	645,438	520,576
	\$ 2,553,487	\$ 2,121,527

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

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

Morris County Hospital
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Notes to Financial Statements
December 31, 2018 and 2017

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 100,644	\$ -	\$ -	\$ -	\$ 100,644
Land improvements	227,472	-	-	-	227,472
Building	7,967,706	-	-	-	7,967,706
Fixed equipment	3,850,290	-	-	-	3,850,290
Moveable equipment	6,730,176	67,038	-	218,171	7,015,385
Construction in progress	5,393	603,526	-	(218,171)	390,748
	<u>18,881,681</u>	<u>670,564</u>	<u>-</u>	<u>-</u>	<u>19,552,245</u>
Less accumulated depreciation					
Land improvements	(225,674)	(706)	-	-	(226,380)
Building	(4,046,384)	(210,163)	-	-	(4,256,547)
Fixed equipment	(2,816,398)	(167,099)	-	-	(2,983,497)
Moveable equipment	(5,660,593)	(421,149)	-	-	(6,081,742)
	<u>(12,749,049)</u>	<u>(799,117)</u>	<u>-</u>	<u>-</u>	<u>(13,548,166)</u>
Capital Assets, Net	<u>\$ 6,132,632</u>	<u>\$ (128,553)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,004,079</u>

Note 6: Physician Receivables

During 2014, the Hospital entered into a contract with a physician to relocate to Council Grove, Kansas to establish a medical practice. The Hospital agreed to extend a line of credit to the physician to make monthly advances as needed not to exceed a certain aggregate amount during the support period. The support period is a period of 12 months following the commencement date of June 7, 2014. The Hospital also agreed to make monthly payments to the physician if the net income generated by the physician's new practice during the month does not equal or exceed a specific minimum amount stated in the physician's contract. The physician is required to diligently and fully devote their efforts and time to the operation of their practice in Council Grove, Kansas for a 48-month commitment period. In the event the physician fails to perform under the contract, the physician is required to reimburse the Hospital for all sums advanced under the contract. During 2015, the physician failed to perform under the contract. The physician receivable is \$0 and \$100,990 at December 31, 2018 and 2017, respectively.

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During 2017, the Hospital entered into a contract with a physician to relocate to Council Grove, Kansas to establish a medical practice. The Hospital agreed to extend a line of credit to the physician to make monthly advances as needed not to exceed a certain aggregate amount during the support period. The support period is a period of 12 months following the commencement date of July 1, 2017. The physician is required to diligently and fully devote their efforts and time to the operation of their practice in Council Grove, Kansas for a 48-month commitment period. In the event the physician fails to perform under the contract, the physician is required to reimburse the Hospital for all sums advanced under the contract. The physician receivable is \$127,693 and \$63,495 at December 31, 2018 and 2017, respectively.

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

Note 7: Medical Malpractice Claims

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

Note 8: Employee Health Claims

Effective August 2017, substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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

	2018	2017
Balance, beginning of year	\$ -	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	324,236	78,586
Claims and expenses paid	(286,137)	(78,586)
Balance, end of year	\$ 38,099	\$ -

Note 9: Long-term Obligations

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

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

	2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2011A	\$ 1,430,000	\$ -	\$ 125,000	\$ 1,305,000	\$ 130,000	\$ 1,175,000
Capital lease obligations	433,992	-	154,220	279,772	158,262	121,510
	\$ 1,863,992	\$ -	\$ 279,220	\$ 1,584,772	\$ 288,262	\$ 1,296,510

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Revenue Bonds Payable – Series 2018A

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

Revenue Bonds Payable – Series 2018B

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

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee in the balance sheets. The indenture agreements also require the Hospital to comply with restrictive covenants including maintaining a historical debt-service ratio of at least 1.25.

Revenue Bonds Payable – Series 2011A

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

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Assets under capital leases at December 31, 2018 and 2017, totaled \$768,394 and \$768,394, respectively, net of accumulated depreciation of \$640,328 and \$486,650, respectively.

Debt service requirements on long-term debt, including capital lease obligations, as of December 31, 2018, are as follows:

Year Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2019	\$ 130,000	\$ 142,117	\$ 121,510	\$ 1,317
2020	135,000	137,334	-	-
2021	140,000	133,284	-	-
2022	145,000	129,084	-	-
2023	150,000	124,734	-	-
2024-2028	2,995,000	1,093,390	-	-
	<u>\$ 3,695,000</u>	<u>\$ 1,759,943</u>	<u>\$ 121,510</u>	<u>\$ 1,317</u>

Note 10: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$52,598 and \$68,512 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 11: Employee Benefit Plans

Pension Plan

The Board of Trustees elected to withdraw from the social security system and approved a defined contribution retirement plan covering substantially all employees. The retirement plan is a part of an overall employee benefit package which also provides for health care, life and disability insurance. The total employee benefit is based on a specified percentage of the employee's wages. The health care costs and other benefits paid for each employee are deducted from this total, arriving at the amount for retirement. However, the retirement benefit may not be less than 7.5% or greater than 25% of the employee's wages, regardless of the amount of health and other insurance benefits paid on the employee's behalf. The Hospital makes contributions to the plan equal to amounts accrued for benefits. Total retirement plan expense was \$302,946 and \$255,691 for the years ended December 31, 2018 and 2017, respectively.

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Profit Sharing Plan

The Board of Trustees established a profit sharing plan to provide an additional benefit to its employees. The Hospital provides the profit sharing plan to substantially all employees of the Hospital who have reached the age of 21 and completed one year of service or 800 hours. The Hospital's annual contribution to the trust is equal to the amount the Hospital deems to be advisable from time to time. An employee becomes fully vested in the plan upon completion of six years of service. Total profit sharing expense was \$4,238 and \$16,076 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan

The Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$47,215 and \$51,173 for the years ended December 31, 2018 and 2017, respectively. The Hospital does not contribute to the 457(b) plan.

Note 12: Disclosure About Fair Value of Assets

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

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

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

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

December 31, 2017	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equity	\$ 430,588	\$ 430,588	\$ -	\$ -
Mutual funds - fixed income	148,843	148,843	-	-
U.S. Treasury securities	18,623	18,623	-	-
	<u>598,054</u>	<u>\$ 598,054</u>	<u>\$ -</u>	<u>\$ -</u>
Equity investment	<u>(30,639)</u>			
	<u>\$ 567,415</u>			

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

Investments

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

Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2018 and 2017:

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

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	December 31, 2017			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 3,765,518	\$ 1,080,382	\$ -	\$ 4,845,900
Capital assets, net	6,000,552	3,527	-	6,004,079
Other assets	3,357,452	-	-	3,357,452
	<u>\$ 13,123,522</u>	<u>\$ 1,083,909</u>	<u>\$ -</u>	<u>\$ 14,207,431</u>
Liabilities				
Current liabilities	\$ 847,880	\$ -	\$ -	\$ 847,880
Noncurrent liabilities	1,296,510	-	-	1,296,510
	<u>2,144,390</u>	<u>-</u>	<u>-</u>	<u>2,144,390</u>
Net Position				
Net investments in capital assets	4,415,780	3,527	-	4,419,307
Restricted expendable	-	622,053	-	622,053
Unrestricted	6,563,352	458,329	-	7,021,681
	<u>10,979,132</u>	<u>1,083,909</u>	<u>-</u>	<u>12,063,041</u>
Total liabilities and net position	<u>\$ 13,123,522</u>	<u>\$ 1,083,909</u>	<u>\$ -</u>	<u>\$ 14,207,431</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2018 and 2017:

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

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	December 31, 2017			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 8,345,388	\$ -	\$ -	\$ 8,345,388
Other	426,929	5,856	-	432,785
Total operating revenues	<u>8,772,317</u>	<u>5,856</u>	<u>-</u>	<u>8,778,173</u>
Operating Expenses				
Other operating expenses	8,869,676	209,090	-	9,078,766
Depreciation and amortization	795,592	3,525	-	799,117
Total operating expenses	<u>9,665,268</u>	<u>212,615</u>	<u>-</u>	<u>9,877,883</u>
Operating Loss	<u>(892,951)</u>	<u>(206,759)</u>	<u>-</u>	<u>(1,099,710)</u>
Nonoperating Revenues (Expenses)				
Noncapital contributions	28,385	45,170	-	73,555
Noncapital appropriations - Morris County	397,296	-	-	397,296
Transfers from Foundation (to Hospital) for operations	10,000	(10,000)	-	-
Council Grove Assisted Living, LLC losses	-	(8,813)	-	(8,813)
Investment income	31,626	93,297	-	124,923
Interest expense	(52,383)	-	-	(52,383)
Total nonoperating revenues (expenses)	<u>414,924</u>	<u>119,654</u>	<u>-</u>	<u>534,578</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	<u>(478,027)</u>	<u>(87,105)</u>	<u>-</u>	<u>(565,132)</u>
Capital Grants and Gifts	<u>-</u>	<u>512,442</u>	<u>-</u>	<u>512,442</u>
Increase (Decrease) in Net Position	<u>(478,027)</u>	<u>425,337</u>	<u>-</u>	<u>(52,690)</u>
Net Position, Beginning of Year	<u>11,457,159</u>	<u>658,572</u>	<u>-</u>	<u>12,115,731</u>
Net Position, End of Year	<u>\$ 10,979,132</u>	<u>\$ 1,083,909</u>	<u>\$ -</u>	<u>\$ 12,063,041</u>

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The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2018 and 2017:

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

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	December 31, 2017			
	Hospital	Foundation	Eliminations	Total
Net Cash Provided By (Used In)				
Operating Activities	\$ 56,098	\$ (203,234)	\$ -	\$ (147,136)
Net Cash Provided By				
Noncapital Financing Activities	435,681	35,170	-	470,851
Net Cash Provided By (Used In)				
Capital and Related Financing Activities	(1,002,884)	512,442	-	(490,442)
Net Cash Provided By (Used In)				
Investing Activities	<u>(652,307)</u>	<u>4</u>	<u>-</u>	<u>(652,303)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,163,412)	344,382	-	(819,030)
Cash and Cash Equivalents, Beginning of Year	<u>2,163,282</u>	<u>168,115</u>	<u>-</u>	<u>2,331,397</u>
Cash and Cash Equivalents, End of Year	<u>\$ 999,870</u>	<u>\$ 512,497</u>	<u>\$ -</u>	<u>\$ 1,512,367</u>

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Note 14: Government Acquisition

On June 28, 2018, the Hospital acquired the assets of Family Health Center of Morris County, LLC (FHCMC). FHCMC is a clinic facility attached to the Hospital. The acquisition will enable the Hospital and FHCMC to provide their patients with improved access to necessary, quality care.

The following table summarizes the consideration paid for FHCMC and the amounts of the assets acquired recognized at the acquisition date. The Hospital obtained a third-party valuation of certain intangible assets. Going forward, FHCMC will be known as the MCH Medical Clinic.

Fair Value of Consideration Transferred	
Cash	<u>\$ 262,500</u>
Recognized Amounts of Identifiable Assets Acquired	
Supplies	\$ 4,000
Computer equipment and software	139,500
Identified intangible assets	
Trained workforce	23,000
Capitalized EMR workforce training	11,000
Patient charts	36,000
Tradename	18,000
Phone records	2,000
Non-compete	<u>29,000</u>
Total identifiable assets	<u>\$ 262,500</u>

The identified intangible assets in the above table are reported as deferred outflows of resources in the accompanying balance sheets. The length of the attrition period was determined to be three years.

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