Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016

BKD LLP
CPAs & Advisors

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
June 30, 2017 and 2016

Contents

BKD LLP
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1551 N. Waterfront Parkway, Suite 300 // Wichita, KS 67206-6601
316.265.2811 // fax 316.265.9405 // bkd.com

Independent Auditor's Report

Board of Trustees
Ellsworth County Medical Center
Ellsworth, Kansas

We have audited the accompanying balance sheets of Ellsworth County Medical Center (Medical Center), a component unit of Ellsworth County, Kansas, as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Ellsworth County Medical Center's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth County Medical Center as of June 30, 2017 and 2016, 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
November 29, 2017

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Balance Sheets
June 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	$ 468,786	$ 2,024,648
Patient accounts receivable, net of allowance; 2017 - $110,213, 2016 - $137,846	3,159,078	2,202,696
Estimated amounts due from third-party payers	1,224,732	161,137
Supplies	204,256	238,094
Prepaid expenses and other	262,930	251,048
Total current assets	5,319,782	4,877,623
Noncurrent Cash and Investments		
Designated by Board of Trustees	1,163,907	1,457,339
Restricted by donors	26,526	33,394
Investment in equity investee	338,171	92,945
	1,528,604	1,583,678
Capital Assets, Net	2,931,072	3,059,607
Other Assets		
Advances to medical students	88,213	76,587
Total assets	$ 9,867,671	$ 9,597,495

Liabilities and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	$ 271,016	$ 177,457
Accounts payable	662,861	548,755
Accrued salaries payable	291,923	260,798
Accrued benefits payable	425,266	381,060
Other accrued liabilities	409,804	411,500
Total current liabilities	2,060,870	1,779,570
Long-term Debt	381,335	411,928
Total liabilities	2,442,205	2,191,498
Net Position		
Net investment in capital assets	2,278,721	2,470,222
Restricted - expendable for		
Specific operating activities	26,526	33,394
Unrestricted	5,120,219	4,902,381
Total net position	7,425,466	7,405,997
Total liabilities and net position	$ 9,867,671	$ 9,597,495

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – $137,136, 2016 – $541,358	$ 14,397,457	$ 12,908,437
Other	2,053,381	2,166,169
Total operating revenues	16,450,838	15,074,606
Operating Expenses		
Salaries and wages	8,288,456	7,868,473
Employee benefits	1,918,781	1,616,976
Supplies and other	5,964,424	6,030,644
Depreciation	773,154	579,721
Total operating expenses	16,944,815	16,095,814
Operating Loss	(493,977)	(1,021,208)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Ellsworth County	224,340	224,340
Investment income	35,771	28,012
Interest expense	(16,835)	(12,969)
Gain on sale of capital assets	-	300
Gain (loss) on investment in equity investee	245,226	(62,888)
Noncapital grants and gifts	24,944	34,470
Total nonoperating revenues	513,446	211,265
Increase (Decrease) in Net Position	19,469	(809,943)
Net Position, Beginning of Year	7,405,997	8,215,940
Net Position, End of Year	$ 7,425,466	$ 7,405,997

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 12,377,480	$ 14,476,710
Payments to suppliers	(5,491,682)	(6,223,846)
Payments to employees	(10,133,602)	(9,353,958)
Other receipts, net	2,041,755	2,193,631
Net cash provided by (used in) operating activities	(1,206,049)	1,092,537
Noncapital Financing Activities		
Noncapital appropriations - Ellsworth County	224,340	224,340
Noncapital grants and gifts	24,944	34,470
Net cash provided by noncapital financing activities	249,284	258,810
Capital and Related Financing Activities		
Purchases of capital assets	(923,949)	(685,389)
Proceeds from sale of capital assets	-	300
Proceeds from issuance of long-term debt	200,000	46,107
Principal paid on long-term debt	(194,384)	(141,102)
Interest paid on long-term debt	(16,835)	(12,969)
Net cash used in capital and related financing activities	(935,168)	(793,053)
Investing Activities		
Investment income	35,771	28,012
Purchases of investments	(203,389)	(702,781)
Proceeds from disposition of investments	498,424	602,186
Capital contribution to equity investee	-	(68,188)
Net cash provided by (used in) investing activities	330,806	(140,771)
Increase (Decrease) in Cash	(1,561,127)	417,523
Cash, Beginning of Year	2,111,435	1,693,912
Cash, End of Year	$ 550,308	$ 2,111,435

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 468,786	$ 2,024,648
Cash in noncurrent cash and investments	81,522	86,787
Total cash	$ 550,308	$ 2,111,435
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (493,977)	$ (1,021,208)
Depreciation	773,154	579,721
Provision for uncollectible accounts	137,136	541,358
Change in operating assets and liabilities		
Patient accounts receivable	(1,093,518)	732,798
Estimated amounts due from third-party payers	(1,063,595)	294,117
Supplies	33,838	(14,019)
Prepaid expenses and other	(11,882)	(27,291)
Advances to medical students	(11,626)	27,462
Accounts payable	450,786	(151,892)
Accrued salaries payable	31,125	51,469
Accrued benefits payable	44,206	62,430
Other accrued liabilities	(1,696)	17,592
Net cash provided by (used in) operating activities	$ (1,206,049)	$ 1,092,537
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	$ -	$ 336,680
Capital lease obligations incurred for capital assets	$ 57,350	$ 246,768

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

Nature of Operations and Reporting Entity

Ellsworth County Medical Center (Medical Center) is a short-term acute care facility that is a component unit and an integral part of the overall reporting entity of Ellsworth County, Kansas. The Medical Center was organized and began operations on August 1, 1993, to provide inpatient and outpatient health care services for the benefit of the community. The Medical Center is operated by a Board of Trustees appointed by the County Commissioners of Ellsworth County, Kansas.

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, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally 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 Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

Noncapital Appropriations – Ellsworth County

The Medical Center receives approximately 1% of its financial support from noncapital appropriations from Ellsworth County property tax levy. One hundred percent of these appropriations were used to support operations.

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

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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims up to $35,000 and $25,000 per individual for 2017 and 2016, respectively. Claims in excess of $35,000 and $25,000 per individual for 2017 and 2016, respectively, or $1,000,000 aggregate Medical Center claims are covered through a reinsurance policy. 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.

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 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 market.

Noncurrent Cash and Investments and Investment Income

Noncurrent cash and investments include designated assets set aside by the Board of Trustees for future capital improvements, education and physician recruitment, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets that are restricted for operating purposes, capital purposes and debt service. The funds are primarily invested in certificates of deposit and money market accounts. The investment in equity investee is reported on the equity method of accounting.

Investment income includes dividend and interest income.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquistion 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	15 years
Building	40 years
Fixed equipment	7 – 25 years
Major moveable equipment	5 – 20 years

Compensated Absences

The Medical Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. 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 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.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by donors external to the Medical Center. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The 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.

Charity Care

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

Charges excluded from revenue under the Medical Center's charity care policy were $91,039 and $135,213 for June 30, 2017 and 2016, respectively. The Medical Center's direct and indirect costs for services and supplies furnished under the Medical Center's charity care policy were approximately $73,000 and $102,000 in 2017 and 2016, respectively. Costs were calculated using the overall cost-to-charge ratio from the June 30, 2017 and 2016, filed Medicare cost reports.

Income Taxes

As an essential government function of Ellsworth County, 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 obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

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 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 Medical Center'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 Medical Center is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center has recognized $59,403 and $338,104 in incentive payment revenue under the Medicare and Medicaid programs, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position as of the years ended June 30, 2017 and 2016, respectively.

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. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.

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. The Medical Center is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Medical Center and reviews thereof by the Kansas Department of Health and Environment.

Approximately 60% and 57% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2017 and 2016, 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 June 30, 2017 and 2016, respectively, $674,134 and $2,589,616 of the Medical Center's bank balances of $1,776,799 and $3,645,513 were exposed to custodial credit risk as follows:

	2017	2016
Uninsured and collateral held by the pledging financial institution in the Medical Center's name and an irrevocable letter of credit	$ 674,134	$ 2,589,616

Summary of Carrying Values

The carrying values of deposits (excluding petty cash) shown above are included in the balance sheets as follows:

	2017	2016
Cash	$ 468,381	$ 2,024,243
Noncurrent cash and investments	1,190,433	1,490,733
	$ 1,658,814	$ 3,514,976

As of June 30, 2017, noncurrent cash and investments are comprised of certificates of deposit with remaining maturities of less than one year.

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 June 30, 2017 and 2016, consisted of:

	2017	2016
Medicare	$ 1,931,703	$ 1,390,698
Medicaid	40,034	58,151
Blue Cross	618,807	310,980
Other third-party payers	426,898	374,873
Patients	251,849	205,840
	3,269,291	2,340,542
Less allowance for uncollectible accounts	(110,213)	(137,846)
	$ 3,159,078	$ 2,202,696

Note 5: Investment in Equity Investee

The investment in equity investee relates to an approximate 13% ownership of Community Holdings, LLC as of June 30, 2017. The Medical Center made capital contributions of $0 and $68,188 in 2017 and 2016, respectively. Financial position and results of operations of the investee are summarized below:

	2017	2016
Cash and cash equivalents	$ 1,163,009	$ 816,518
Net risk premium funds withheld	2,934,514	1,843,959
Other assets	67,188	483,538
Total assets	4,164,711	3,144,015
Incurred but not reported	1,293,365	2,125,603
Other liabilities	191,523	47,195
Total liabilities	1,484,888	2,172,798
Members' equity	$ 2,679,823	$ 971,217
Gross captive premium income	$ 1,474,542	$ 2,791,617
Gains (losses) incurred, net	547,280	(2,783,749)
Underwriting and administrative expenses	(315,315)	(655,855)
Other income (expenses)	(134,922)	629
Net income (loss)	$ 1,571,585	$ (647,358)

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 56,240	$ -	$ -	$ -	$ 56,240
Land improvements	365,673	5,090	-	-	370,763
Buildings	3,821,287	21,758	-	-	3,843,045
Fixed equipment	600,185	-	-	-	600,185
Moveable equipment	4,268,202	31,684	(207,220)	1,528,280	5,620,946
Construction in progress	1,027,493	586,087	-	(1,528,280)	85,300
	10,139,080	644,619	(207,220)	-	10,576,479
Less accumulated depreciation					
Land improvements	357,827	3,854	-	-	361,681
Buildings	2,882,636	168,156	-	-	3,050,792
Fixed equipment	533,821	16,969	-	-	550,790
Moveable equipment	3,305,189	584,175	(207,220)	-	3,682,144
	7,079,473	773,154	(207,220)	-	7,645,407
Capital Assets, Net	$ 3,059,607	$ (128,535)	$ -	$ -	$ 2,931,072

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 56,240	$ -	$ -	$ -	$ 56,240
Land improvements	365,673	-	-	-	365,673
Buildings	3,821,287	-	-	-	3,821,287
Fixed equipment	600,185	-	-	-	600,185
Moveable equipment	4,139,617	134,624	(6,039)	-	4,268,202
Construction in progress	-	1,027,493	-	-	1,027,493
	8,983,002	1,162,117	(6,039)	-	10,139,080
Less accumulated depreciation					
Land improvements	354,588	3,239	-	-	357,827
Buildings	2,748,266	134,370	-	-	2,882,636
Fixed equipment	518,948	14,873	-	-	533,821
Moveable equipment	2,883,989	427,239	(6,039)	-	3,305,189
	6,505,791	579,721	(6,039)	-	7,079,473
Capital Assets, Net	$ 2,477,211	$ 582,396	$ -	$ -	$ 3,059,607

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended June 30:

	2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Note payable to bank	$ -	$ 200,000	$ (10,711)	$ 189,289	$ 70,253	$ 119,036
Capital lease obligations	589,385	57,350	(183,673)	463,062	200,763	262,299
	$ 589,385	$ 257,350	$ (194,384)	$ 652,351	$ 271,016	$ 381,335

	2016					
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 437,612	$ 292,875	$ (141,102)	$ 589,385	$ 177,457	$ 411,928

Note Payable to Bank

The note payable to bank is due March 15, 2020, with principal payable monthly and interest at 3.36% payable monthly. The note is secured by certificates of deposit. The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total To Be Paid	Principal	Interest
2018	$ 75,983	$ 70,253	$ 5,730
2019	70,137	67,164	2,973
2020	52,604	51,872	732
	$ 198,724	$ 189,289	$ 9,435

Capital Lease Obligations

The Medical Center is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2017 and 2016, totaled $952,039 and $884,017, respectively, net of accumulated depreciation of $495,619 and $286,762, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.49% to 2.53% together with the present value of the future minimum lease payments as of June 30, 2017:

Year Ending June 30,	
2018	$ 210,145
2019	156,869
2020	75,667
2021	36,420
Total minimum lease payments	479,101
Less amount representing interest	16,039
Present value of future minimum lease payments	$ 463,062

Note 8: Pension Plans

The Medical Center has a defined contribution plan (401(a) plan) in which all employees of the Medical Center become eligible for participation upon active employment. Employees were required by the plan to contribute 6.42% of their salary to the plan in 2017 and 2016. Employees are allowed to make additional contributions to the plan. The employer is also required by the plan to contribute 6.42% of employee salary in 2017 and 2016. The Medical Center's contributions to the plan were $521,369 and $470,367 for 2017 and 2016, respectively. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31.

In addition, the Medical Center has a 403(b) defined contribution plan in which all employees of the Medical Center become eligible for participation upon active employment. Employees are allowed to contribute any amount to this plan. The employer will match the first $12 per pay period contributed by the employee. The Medical Center's contributions to the plan were $30,720 and $32,209 for 2017 and 2016, respectively. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31.

The Medical Center provides one additional defined contribution plan (457 plan). The Medical Center does not make contributions to the 457 plan. The plan year begins on January 1 and ends December 31.

Note 9: Employee Health Claims

Effective January 1, 2013, 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 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 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 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	$ 60,816	$ 34,467
Current year claims incurred and changes in estimates for claims incurred in prior years	761,542	670,263
Claims and expenses paid	(744,077)	(643,914)
Balance, end of year	$ 78,281	$ 60,816

Note 10: Medical Malpractice Coverage and Claims

The Medical Center purchases medical malpractice insurance 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 near term.

Note 11: 340B Drug Pricing Program

The Medical Center participates in the 340B Drug Pricing Program (340B Program) enabling the Medical Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Medical Center recorded revenues of $1,925,332 and $1,978,359 for the years ending June 30, 2017 and 2016, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Medical Center recorded expenses of $1,289,258.00 and $1,595,296 for the years ending June 30, 2017 and 2016, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: Contingencies

Litigation

In the normal course of business, the Medical Center is from time to time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.