

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
CLAY COUNTY MEDICAL CENTER
DECEMBER 31, 2018 AND 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Clay County Medical Center

We have audited the accompanying financial statements of the business-type activity of Clay County Medical Center (Medical Center), a component unit of Clay County, Kansas, as of and for the years ended December 31, 2018 and 2017, which collectively comprise the Medical Center's financial statements as listed in the table of contents, and the related notes to the 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 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 qualified audit opinion.

Basis for Qualified Opinion

The 2018 and 2017 financial statements referred to above do not include financial data of the Clay County Hospital Foundation (Foundation), a component unit of the Medical Center based on the nature and significance of the relationship between

the Medical Center and the Foundation. Although the Medical Center does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2018 and 2017, the component unit's assets and net assets would be approximately \$1,372,000 and \$3,225,000, respectively, and the decrease in net assets would be approximately \$1,853,000 for the year ended December 31, 2018, and the increase in net assets would be approximately \$594,000 for the year ended December 31, 2017.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Clay County Medical Center as of December 31, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

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

Other

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clay County Medical Center's financial statements as a whole. The supplementary information presented on pages 20 through 25 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 26 is presented solely as supplementary information. This data has been summarized from Medical Center records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Wendling Mae Nelson & Johnson 22C

Topeka, Kansas
May 3, 2019

FINANCIAL STATEMENTS

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF NET POSITION
December 31,

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and invested cash	\$ 4,336,661	\$ 4,959,762
Assets whose use is limited - required for current liabilities (Note D)	448,974	1,614,644
Patient accounts receivable, net of allowance for doubtful accounts of \$5,778,589 in 2018 and \$5,671,377 in 2017 (Note A5)	3,519,543	3,031,285
Other receivables	639,582	11,814
Inventories (Note A6)	328,629	266,655
Estimated settlements due from third- party payors (Note B)	651,373	
Prepaid expenses	<u>98,072</u>	<u>128,380</u>
Total current assets	<u>10,022,834</u>	<u>10,012,540</u>
ASSETS WHOSE USE IS LIMITED		
By Board of Trustees (Note C)	3,132,409	1,444,035
By agreement held by trustee (Note D)	<u>448,974</u>	<u>9,595,124</u>
	3,581,383	11,039,159
Less assets whose use is limited and that are required for current liabilities	<u>448,974</u>	<u>1,614,644</u>
Noncurrent assets whose use is limited	<u>3,132,409</u>	<u>9,424,515</u>
CAPITAL ASSETS - NET (Notes A8, E, and G)	<u>23,078,643</u>	<u>13,494,075</u>
OTHER ASSETS		
Other investments (Notes A10 and F)	<u>416,913</u>	<u>566,681</u>
Total assets	<u>\$ 36,650,799</u>	<u>\$ 33,497,811</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current installments of long-term debt (Note G)	\$ 510,000	\$ 240,540
Accounts payable and other accrued liabilities	1,305,372	1,969,394
Salaries and wages payable	351,929	320,170
Accrued compensated absences	617,010	590,442
Estimated settlements due to third-party payors (Note B)		631,180
Accrued interest payable	<u>140,475</u>	<u>141,476</u>
Total current liabilities	<u>2,924,786</u>	<u>3,893,202</u>
LONG-TERM DEBT, excluding current installments (Note G)	<u>16,698,246</u>	<u>17,270,351</u>
Total liabilities	<u>19,623,032</u>	<u>21,163,553</u>
NET POSITION (Note A11)		
Invested in capital assets - net of related debt	6,380,397	5,272,108
Restricted		
For debt service (Note D)	448,974	543,740
Unrestricted	<u>10,198,396</u>	<u>6,518,410</u>
Total net position	<u>17,027,767</u>	<u>12,334,258</u>
Total liabilities and net position	<u>\$ 36,650,799</u>	<u>\$ 33,497,811</u>

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN
NET POSITION
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 24,102,553	\$ 20,798,397
Electronic health record incentive revenues		65,753
Other	<u>4,240,054</u>	<u>678,133</u>
Total operating revenue	<u>28,342,607</u>	<u>21,542,283</u>
Operating expenses		
Salaries and wages	11,614,872	11,116,726
Employee benefits	3,157,122	2,488,311
Supplies and other	10,166,822	6,413,550
Depreciation and amortization	<u>1,729,521</u>	<u>933,460</u>
Total operating expenses	<u>26,668,337</u>	<u>20,952,047</u>
Operating income	<u>1,674,270</u>	<u>590,236</u>
Nonoperating revenues (expenses), net		
Tax levy	686,145	662,797
Interest expense	(323,536)	(73,237)
Investment income	88,255	151,408
Noncapital grants and contributions	73,876	86,917
Gain on disposal of capital assets	<u>(39,093)</u>	<u>1,896</u>
Total nonoperating revenues (expenses), net	<u>485,647</u>	<u>829,781</u>
Revenues in excess of expenses before capital contributions	2,159,917	1,420,017
Capital contributions	<u>2,533,592</u>	<u>340,874</u>
Change in net position	4,693,509	1,760,891
Net position at beginning of year	<u>12,334,258</u>	<u>10,573,367</u>
Net position at end of year	<u>\$ 17,027,767</u>	<u>\$ 12,334,258</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 22,331,742	\$ 20,811,742
Payments to or on behalf of employees	(14,589,029)	(13,551,824)
Payments for suppliers and services	(10,086,086)	(5,826,935)
Other receipts and payments	<u>3,611,285</u>	<u>749,381</u>
Net cash provided by operating activities	<u>1,267,912</u>	<u>2,182,364</u>
Cash flows from noncapital financing activities		
Tax levy	686,145	662,797
Noncapital grants and contributions	<u>73,876</u>	<u>86,917</u>
Net cash provided by noncapital financing activities	<u>760,021</u>	<u>749,714</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(12,070,679)	(7,639,323)
Proceeds from sale of capital assets	18,449	1,896
Principal payments on long-term debt	(262,691)	(346,312)
Principal payments on capital lease obligations		(36,487)
Capital contributions received	2,533,592	340,874
Interest paid	<u>(565,504)</u>	<u>(569,638)</u>
Net cash used by capital and related financing activities	<u>(10,346,833)</u>	<u>(8,248,990)</u>
Cash flows from investing activities		
Change in assets whose use is limited by agreement	9,146,150	7,332,993
Change in other investments	149,768	(117,706)
Investment income received	<u>88,255</u>	<u>151,408</u>
Net cash provided by investing activities	<u>9,384,173</u>	<u>7,366,695</u>
Net increase in cash and cash equivalents	1,065,273	2,049,783
Cash and cash equivalents at beginning of year	<u>6,403,797</u>	<u>4,354,014</u>
Cash and cash equivalents at end of year	<u>\$ 7,469,070</u>	<u>\$ 6,403,797</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 4,336,661	\$ 4,959,762
Cash included in assets whose use is limited by Board of Trustees	<u>3,132,409</u>	<u>1,444,035</u>
	<u>\$ 7,469,070</u>	<u>\$ 6,403,797</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,674,270	\$ 590,236
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,729,521	933,460
Provision for bad debts	1,508,187	1,484,047
Changes in		
Accounts receivable	(1,996,445)	(517,102)
Other receivables	(627,768)	4,267
Estimated settlements with third-party payors	(1,282,553)	(953,600)
Inventories and prepaid expenses	(31,666)	133,103
Accounts payable and accrued expenses	<u>294,366</u>	<u>507,953</u>
Net cash provided by operating activities	<u>\$ 1,267,912</u>	<u>\$ 2,182,364</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Clay County Medical Center (Medical Center) is located in Clay Center, Kansas, and operates a 25-bed hospital. On July 1, 2016, the Medical Center acquired a physician practice and is operating it as a provider-based rural health clinic. The Medical Center is owned by Clay County, Kansas (County), and governed by an elected five-member Board of Trustees. The Medical Center is a component unit of the County.

2. Blended component unit

Liberty Square, Inc. (LSI), is a not-for-profit corporation that was established for the basic purpose of leasing a nursing home and extended care facility to another party. LSI is governed by a Board of Trustees who hold their positions as a result of being elected members of the Medical Center's Board. For financial reporting purposes, LSI is reported as if it were a part of the Medical Center. The net assets of LSI, if any, are to be distributed to the Medical Center upon dissolution.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Use of estimates

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

5. Patient accounts receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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.

6. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Costs of borrowing

Interest costs (including amortization of bond premium) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Original issue premiums and discounts associated with issuance of long-term debt are amortized using the principal outstanding method over the term of the related debt.

10. Other investments

The Medical Center's investments in Mobile Clinical Services, Inc., Clay County Assisted Living, LLC, and Community Holdings LLC are stated at cost plus equity in undistributed net earnings (loss) since the date of acquisition.

11. Net position

The net position of the Medical Center is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Operating revenues and expenses

The statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

14. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and other organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

15. Charity care

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

16. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(c)(3) of the Internal Revenue Code.

17. Cash equivalents

The Medical Center considers all cash and invested cash, excluding any assets whose use is limited by agreement held by trustee, to be cash equivalents for purposes of the cash flow statement.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated settlements due to/from third-party payors consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient and outpatient services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access provisions are primarily based on various cost reimbursement methodologies. Physician and hospice services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 44,353,929	\$ 41,185,987
Adjustments to patient revenue		
Third-party contractual adjustments, discounts, and allowances	(18,396,627)	(18,609,893)
Provision for bad debts	(1,508,187)	(1,484,047)
Charity care	<u>(346,562)</u>	<u>(293,650)</u>
Net patient service revenue	<u>\$ 24,102,553</u>	<u>\$ 20,798,397</u>

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - REIMBURSEMENT PROGRAMS - Continued

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2018 and 2017, was \$346,562 and \$293,650, respectively. The Medical Center estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Medical Center's cost reports, was \$190,303 and \$142,535 for 2018 and 2017, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Medical Center recognizes revenue for EHR incentives when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Medical Center recognized \$65,753 of revenue related to EHR incentives in 2017.

The Medical Center incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Medical Center's recognition of EHR incentives as revenue.

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF TRUSTEES

Assets whose use is limited by the Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets, future bond principal and interest payments, and for deductible amounts under the Medical Center's health plan. The assets may be used for other purposes by action of the Board of Trustees.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE D - ASSETS WHOSE USE IS LIMITED BY AGREEMENT HELD BY TRUSTEE

Assets whose use is limited by agreement held by trustee are related to the Series 2016 General Obligation Refunding and Improvement Bonds (see Note G). The assets consist of invested cash and U.S. government and agency obligations in the following accounts:

	<u>2018</u>	<u>2017</u>
Debt Service Account	\$ 448,974	\$ 543,740
Series 2016-Bond Compliance Account		3,000
Series 2016-Capitalized Interest Account		550,650
Series 2016-Project Fund		8,497,734
	448,974	9,595,124
Less amounts required for current liabilities	448,974	1,614,644
	\$ -	\$ 7,980,480

The Debt Service Account is to be used to pay interest and principal payments on the bonds. Funds in these accounts that are required for obligations classified as current liabilities are reported in current assets.

The Medical Center categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices for identical assets in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are unobservable and supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Money market mutual funds are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

U.S. Government and Agency bonds and corporate bonds are valued at prices provided by independent pricing services (Level 2 inputs).

The Medical Center has the following recurring fair value measurements at December 31, 2018 and 2017, included under the caption of Assets Limited as to Use by agreement held by trustee:

Money market mutual funds of \$3,601,766 in 2017 are valued at unadjusted quoted prices in active markets (Level 1).

U.S. Government and Agency obligations of \$5,446,617 in 2017 are valued at prices provided by independent pricing services to the trustee (Level 2).

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - OTHER INVESTMENTS

Other investments consist of 5,000 shares (25 percent) of the common stock of Mobile Clinical Services, Inc. (MCS), two units (22.2 percent) of the ownership units of Clay County Assisted Living, LLC (CCAL), and a 14.86 percent equity interest in Community Holdings LLC (CH) (see Note J). The Medical Center's equity in undistributed net earnings of MCS since acquisition is \$155,239. The Medical Center's equity in the undistributed net loss of CCAL since acquisition is \$93,825. The Medical Center's equity in the undistributed net loss of CH since acquisition is \$(52,091). The carrying values of MCS, CCAL, and CH are \$160,239, \$6,175, and \$250,499 at December 31, 2018, respectively.

Nuclear medicine and ultrasound services are provided to the Medical Center through arrangements with MCS. Total fees charged to operating expense for these services were approximately \$94,000 in 2018 and \$98,000 in 2017. Amounts payable to MCS for these services were insignificant at December 31, 2018 and 2017. The Medical Center paid CH approximately \$777,000 and \$828,000 in 2018 and 2017, respectively, for premiums under its partially self-insured health insurance plan.

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
2.00% to 4.00% General Obligation Refunding and Improvement Bonds, Series 2016, issued in October 2016, in the original amount of \$16,775,000	\$ 16,345,000	\$ 16,565,000
0% Note payable due to Blue Stem Electric Coop, issued in April 2008, in the original amount of \$740,000 with an administrative fee of one percent of the unpaid balance due annually to Blue Stem Electric Coop and, in addition, an administrative fee of one percent of the unpaid principal balance due annually to a local bank, and monthly principal payments of \$6,852		20,540
	16,345,000	16,585,540
Net unamortized premium on 2016 bonds	863,246	925,351
Less current maturities of long-term debt	(510,000)	(240,540)
	\$ 16,698,246	\$ 17,270,351

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - LONG-TERM DEBT - Continued

In October of 2016, the County issued \$16,775,000 in General Obligation Refunding and Improvement bonds (the 2016 bonds). The proceeds of the 2016 bonds were used to refund the remaining principal of the Series 2006-A bond issue, and to pay for certain costs related to the issuance of the bonds as well as to finance the expansion and renovation of the Medical Center. The bonds are due in annual installments of varying amounts with final maturity on October 1, 2046. In connection with the issuance of these bonds, the Medical Center signed a pledge of revenues agreement with the County. In this agreement, the Medical Center pledged to provide payments sufficient to make all debt service payments related to the bonds when they come due. Interest is payable on April 1 and October 1 of each year.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 510,000	\$ 561,900	\$ 1,071,900
2020	510,000	551,700	1,061,700
2021	595,000	536,400	1,131,400
2022	600,000	518,550	1,118,550
2023	610,000	500,550	1,110,550
Thereafter	<u>13,520,000</u>	<u>5,198,900</u>	<u>18,718,900</u>
	<u>\$ 16,345,000</u>	<u>\$ 7,868,000</u>	<u>\$ 24,213,000</u>

The following is a summary of changes in long-term debt:

Principal outstanding at January 1, 2017	\$ 16,877,764
2017 Payment of debt	<u>(292,224)</u>
Principal outstanding at December 31, 2017	16,585,540
2018 Payment of debt	<u>(240,540)</u>
Principal outstanding at December 31, 2018	<u>\$ 16,345,000</u>

Total interest costs are summarized as follows:

	<u>2018</u>	<u>2017</u>
Total interest incurred	\$ 565,504	\$ 569,638
Amortization of bond premium	(39,954)	(8,804)
Interest capitalized	<u>(202,014)</u>	<u>(487,597)</u>
Interest expense	<u>\$ 323,536</u>	<u>\$ 73,237</u>

CLAY COUNTY MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 December 31, 2018 and 2017

NOTE H - RISK MANAGEMENT

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies are currently in effect through December 31, 2018. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

NOTE I - PENSION PLAN

The Medical Center sponsors the Clay County Medical Center Employees' Pension Plan (Plan), which is a defined contribution pension plan. Substantially all employees of the Medical Center are eligible to participate in the Plan after one year of employment. The Hospital contributes 3.5 percent of all eligible employee salaries toward each employee's respective retirement account. An eligible employee must be employed by the Hospital for no less than 12 months, worked a minimum of 1,000 hours per year, and be at least 21 years old. Employees can voluntarily contribute up to the maximum allowed by the Internal Revenue Service. Contributions to the Plan made by an employee vest immediately and contributions to the Plan made by the Medical Center vest based upon the Plan's vesting schedule and the employee's years of service with the Medical Center.

For the years ended December 31, 2018 and 2017, the Hospital and covered employees' contributions to the Plan were as follows:

	<u>2018</u>	<u>2017</u>
Hospital contributions	\$ 345,704	\$ 321,373
Employee contributions	592,016	616,173

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE J - EMPLOYEE HEALTH INSURANCE

The Medical Center is partially self-insured for health insurance claims of its employees. The Medical Center has a reinsurance agreement that provides individual stop-loss coverage for incurred claims expense in excess of \$50,000 for individual subscribers. In addition, the reinsurance company contracts with another insurance company to provide catastrophic stop-loss insurance coverage for incurred claims expense in excess of \$250,000 for individual subscribers. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an insurance company as its agent to process and settle claims.

The Medical Center has an equity interest in the company that provides individual stop-loss coverage for incurred claims expense in excess of \$50,000 for individual subscribers. The detail of this investment is included in Note F.

The following is a summary of the activity under this arrangement:

	<u>2018</u>	<u>2017</u>
Estimated employee health insurance claims payable at beginning of period	\$ 104,362	\$ 138,813
Provision for employer's share of incurred claims expenses for the period, net of any reinsurance proceeds	1,477,608	1,057,743
Employee contributions	541,259	510,762
Payments made for claims, expenses, and reinsurance premiums	<u>(1,894,229)</u>	<u>(1,602,956)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 229,000</u>	<u>\$ 104,362</u>

NOTE K - RENTAL OF PROPERTY

The Medical Center receives rent under operating lease agreements for physician private office space, a nursing home and extended care facility, and other space. Rental revenue under these agreements was approximately \$130,000 and \$134,000 for 2018 and 2017, respectively.

NOTE L - OTHER RELATED PARTIES

Clay County Medical Center Foundation (Foundation) was established in April 1987 and its Articles of Incorporation provide that its funds are for the benefit of the Medical Center. The Foundation's Board is independent of the Medical Center. The Medical Center received \$2,533,592 and \$340,874 in capital contributions in 2018 and 2017, respectively. Of the \$2,533,592 in capital contributions during 2018, \$61,684 is recorded as a receivable from the Foundation as of December 31, 2018, in other receivables.

CLAY COUNTY MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE M - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and that the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Medical Center's deposits with financial institutions was \$7,346,202 and the bank balance was \$7,607,702 at December 31, 2018. The bank balance is categorized as follows at December 31, 2018:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	\$ 922,203
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>6,685,499</u>
	<u>\$ 7,607,702</u>

NOTE N - SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CLAY COUNTY MEDICAL CENTER
NET PATIENT SERVICE REVENUE
Year ended December 31,

	2018			2017
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 3,818,699	\$ 262,008	\$ 4,080,707	\$ 3,881,412
Nursery	61,392		61,392	81,419
Surgery, recovery, and treatment room	97,494	1,195,299	1,292,793	1,162,105
Labor and delivery	140,178	15,732	155,910	192,104
Medical and surgical supplies	544,613	458,466	1,003,079	831,150
Emergency room and observation	113,095	4,207,969	4,321,064	3,887,802
Laboratory	800,775	4,797,053	5,597,828	5,587,358
Blood administration	48,123	56,329	104,452	94,880
Radiology	329,697	3,036,874	3,366,571	3,126,192
Nuclear medicine	25,433	690,082	715,515	634,827
Sonograms	20,087	401,910	421,997	451,186
Computerized tomography	787,817	5,224,122	6,011,939	4,804,253
Mammography		298,901	298,901	258,909
Vascular studies, telemetry, and cardiology	162,071	1,249,671	1,411,742	1,633,391
Clinics	9,252	567,305	576,557	445,431
Pharmacy	834,786	2,772,792	3,607,578	3,141,839
Intravenous therapy	204,126	107,662	311,788	289,553
Anesthesiology	98,340	1,280,372	1,378,712	1,282,247
Respiratory therapy	845,259	218,275	1,063,534	1,011,240
Physical therapy	296,751	1,102,389	1,399,140	1,512,056
Occupational therapy	170,760	305,875	476,635	375,628
Speech therapy	267,955	271,436	539,391	296,486
Hospice	12,404	1,844,873	1,857,277	1,854,223
Rural health clinic		4,285,167	4,285,167	4,326,386
Pulmonary rehabilitation		14,260	14,260	23,910
Gross patient service revenue	<u>\$ 9,689,107</u>	<u>\$34,664,822</u>	44,353,929	41,185,987
Adjustments to gross patient service revenue				
Contractual adjustments, discounts, and allowances			(18,396,627)	(18,609,893)
Provision for bad debts			(1,508,187)	(1,484,047)
Charity care			(346,562)	(293,650)
Net patient service revenue			<u>\$24,102,553</u>	<u>\$20,798,397</u>

CLAY COUNTY MEDICAL CENTER

OPERATING EXPENSES

Year ended December 31,

	2018			2017
	Salaries and wages	Other	Total	Total
Routine nursing care	\$ 1,361,448	\$ 640,047	\$ 2,001,495	\$ 1,438,207
Nursing administration	133,262	29,235	162,497	127,470
Nursery	38,373	33,747	72,120	44,525
Surgery, recovery, and treatment room	422,130	546,422	968,552	627,887
Surgery clinic	22,033	15,068	37,101	11,108
Labor and delivery	81,265	29,386	110,651	116,967
Medical and surgical supplies		224,340	224,340	170,730
Emergency room	1,023,473	136,981	1,160,454	1,077,731
Laboratory	432,824	611,739	1,044,563	1,015,609
Blood administration		50,708	50,708	50,679
Radiology	315,984	272,515	588,499	493,706
Nuclear medicine		117,144	117,144	122,812
Sonogram	57,665	19,245	76,910	76,559
Computerized tomography	65,366	120,058	185,424	171,863
Mammography	39,946	38,023	77,969	107,208
Vascular studies and cardiology Clinics	144,464	15,559	160,023	128,533
Pharmacy	149,997	68,068	218,065	110,306
Intravenous therapy	61,182	1,393,336	1,454,518	1,335,637
Anesthesiology	134,965	83,872	218,837	167,214
Respiratory therapy		369,869	369,869	398,000
Physical, occupational, and speech therapy	164,833	68,954	233,787	197,933
Wellness	739,933	55,115	795,048	662,476
Hospice	114,870	46,921	161,791	175,324
Dietary	721,656	771,409	1,493,065	1,275,582
Operation of plant	245,480	139,084	384,564	368,187
Housekeeping	132,135	728,976	861,111	703,911
Laundry	180,257	38,678	218,935	194,702
Medical records	65,114	24,083	89,197	104,373
Fiscal services	338,038	148,455	486,493	476,128
Purchasing	846,146	298,481	1,144,627	1,079,823
Administrative services	62,829	32,146	94,975	67,812
Employee benefits	829,444	961,859	1,791,303	1,348,984
Depreciation and amortization		3,157,122	3,157,122	2,488,311
Rural health clinic		1,729,521	1,729,521	933,460
Pulmonary rehabilitation	2,685,390	405,461	3,090,851	3,042,973
340B	4,370	450	4,820	18,003
		1,631,388	1,631,388	21,314
	<u>\$11,614,872</u>	<u>\$15,053,465</u>	<u>\$26,668,337</u>	<u>\$20,952,047</u>

CLAY COUNTY MEDICAL CENTER
SUMMARY OF INSURANCE COVERAGE
December 31, 2018

	<u>Policy number</u>	<u>Policy expiration date</u>	<u>Amount</u>
Property - All locations including Medical Arts Bldg	35978042	1-01-19	\$43,917,874
Workmen's compensation Employer liability	Certificate #8	1-01-19	Statutory 500,000/500,000
Crime - Employee Theft	EPP 0367804	1-01-19	100,000
Crime - Forgery/Alteration	EPP 0367804	1-01-19	10,000
Crime - Computer Fraud	EPP 0367804	1-01-19	100,000
Crime - Funds Transfer Fraud	EPP 0367804	1-01-19	100,000
Medical Center liability	HPL0021603	12-31-18	
Professional liability			200,000/600,000
Medical Center premises and operations			1,000,000/3,000,000
Professional employees other than physicians and residents			1,000,000/3,000,000
Employee benefits liability			250,000/250,000
Cyber liability			100,000/100,000
Proactive privacy breach			25,000/25,000
Professional liability - Kansas Health Care Stabilization Fund	HPL0021603	12-31-18	800,000/2,400,000
Employed providers	MPL11623	12-31-18	200,000/600,000
Health Care Stabilization Fund			800,000/2,400,000
Cyber liability			50,000/100,000
Trustees and officers' liability	EPP4917655	1-27-19	1,000,000/1,000,000
Auto	EPP 0367804	1-01-19	
Comprehensive and collision Liability			Full coverage 1,000,000
Employment Practices Liability	EPP4917655	1-27-19	1,000,000/1,000,000

CLAY COUNTY MEDICAL CENTER
 PATIENT ACCOUNTS RECEIVABLE
 December 31,

	<u>2018</u>	<u>2017</u>
Age of patients' accounts		
0 - 30 days	\$ 3,691,557	\$ 3,374,598
31 - 60 days	1,392,797	1,599,760
61 - 90 days	637,542	604,238
Over 90 days	<u>6,196,995</u>	<u>6,002,773</u>
	11,918,891	11,581,369
Less:		
Allowance for doubtful accounts	(5,778,589)	(5,671,377)
Allowance for contractual adjustments	<u>(2,620,759)</u>	<u>(2,878,707)</u>
	<u>\$ 3,519,543</u>	<u>\$ 3,031,285</u>

CLAY COUNTY MEDICAL CENTER
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2018

	Clay County National Bank Clay Center, Kansas	Farmer's & Merchants State Bank Clay Center, Kansas
Bank balances		
December 31, 2018	\$ 172,203	\$ 4,055,925
Less F.D.I.C. coverage	172,203	250,000
Balance in excess of F.D.I.C. coverage	\$ -	\$ 3,805,925
Market value of securities pledged	\$ -	\$ 4,721,792

CLAY COUNTY MEDICAL CENTER
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY - CONTINUED
December 31, 2018

	Union State Bank Clay Center, Kansas	United Bank & Trust Clay Center, Kansas
Bank balances		
December 31, 2018	\$ 1,274,657	\$ 2,104,917
Less F.D.I.C. coverage	250,000	250,000
Balance in excess of F.D.I.C. coverage	\$ 1,024,657	\$ 1,854,917
Market value of securities pledged	\$ 3,162,936	\$ 2,507,054

CLAY COUNTY MEDICAL CENTER
 STATISTICAL DATA
 (Unaudited)
 Year ended December 31,

	<u>2018</u>	<u>2017</u>
Patient days		
Routine nursing care		
Acute care	2,009	1,852
Swing-bed care		
Skilled	1,931	1,967
Nursery	71	101
Discharges (excluding newborn)	808	763
Admissions (excluding newborn)	815	765
Number of licensed beds (excluding nursery)	25	25
Total patient days (excluding nursery)	3,940	3,819
Percent of occupancy (excluding nursery)	43.18%	41.85%
Medicare patient days		
Routine nursing care		
Acute care	1,419	1,441
Swing-bed care	1,757	1,861
Total	3,176	3,302
Medicaid patient days		
Routine nursing care		
Acute care	87	89
Nursery	23	29
Total	110	118
Rural health clinic visits	24,491	25,076