

Independent Auditor's Report and Financial Statements
Clay County Medical Center
December 31, 2019 and 2018

Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Net Position	3
Statements of Revenue, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplementary Information	
Net Patient Service Revenue	17
Operating Expenses	18
Summary of Insurance Coverage	19
Patient Accounts Receivable	20
Balance in Depository Compared with Depository Security	21
Statistical Data	23

Independent Auditor's Report

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Medical Center'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 qualified audit opinion.

Basis for Qualified Opinion

The 2019 and 2018 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, 2019 and 2018, the component unit's assets and net assets would be approximately \$1,377,000 and \$1,372,000, respectively, the increase in net assets would be approximately \$5,000 for the year ended December 31, 2019, and the decrease in net assets would be approximately \$1,853,000 for the year ended December 31, 2018.

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, 2019 and 2018, 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 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 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 basic financial statements as a whole. The supplementary information presented on pages 17 through 22 is for purposes of additional analysis and is not a required part of the basic 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 23 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 Noel Nelson & Johnson LLC

Topeka, Kansas
June 3, 2020

Financial Statements

**Clay County Medical Center
Statements of Net Position
December 31,**

	Assets	
	<u>2019</u>	<u>2018</u>
Current assets		
Cash and invested cash	\$ 7,619,095	\$ 4,336,661
Assets whose use is limited - required for current liabilities (Note D)	101,091	448,974
Patient accounts receivable, net of allowance for doubtful accounts of \$4,597,747 in 2019 and \$5,778,589 in 2018 (Note A4)	2,867,924	3,519,543
Other receivables	511,497	639,582
Inventories (Note A5)	224,978	328,629
Estimated settlements due from third-party payors (Note B)		651,373
Prepaid expenses	400,055	98,072
Total current assets	<u>11,724,640</u>	<u>10,022,834</u>
Assets whose use is limited		
By Board of Trustees (Note C)	4,763,918	3,132,409
By agreement held by trustee (Note D)	101,091	448,974
	4,865,009	3,581,383
Less assets whose use is limited and that are required for current liabilities	<u>101,091</u>	<u>448,974</u>
Noncurrent assets whose use is limited	<u>4,763,918</u>	<u>3,132,409</u>
Capital assets - net (Notes A7, E, and G)	<u>23,032,291</u>	<u>23,078,643</u>
Other assets		
Other investments (Notes A9 and F)	328,053	416,913
Total assets	<u>\$ 39,848,902</u>	<u>\$ 36,650,799</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current installments of long-term debt (Note G)	\$ 510,000	\$ 510,000
Accounts payable and other accrued liabilities	1,551,824	1,305,372
Salaries and wages payable	397,411	351,929
Accrued compensated absences	705,646	617,010
Estimated settlements due to third-party payors (Note B)	303,473	
Accrued interest payable	<u>137,925</u>	<u>140,475</u>
Total current liabilities	<u>3,606,279</u>	<u>2,924,786</u>
 Long-term debt, excluding current installments (Note G)	 <u>16,126,966</u>	 <u>16,698,246</u>
Total liabilities	<u>19,733,245</u>	<u>19,623,032</u>
 Net position (Note A10)		
Invested in capital assets - net of related debt	6,395,325	6,380,397
Restricted		
For debt service (Note D)	101,091	448,974
Unrestricted	<u>13,619,241</u>	<u>10,198,396</u>
Total net position	<u>20,115,657</u>	<u>17,027,767</u>
 Total liabilities and net position	 <u><u>\$ 39,848,902</u></u>	 <u><u>\$ 36,650,799</u></u>

Clay County Medical Center
Statements of Revenue, Expenses, and Changes in Net Position
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 25,693,211	\$ 24,102,553
Other	<u>4,291,387</u>	<u>4,240,054</u>
Total operating revenue	<u>29,984,598</u>	<u>28,342,607</u>
Operating expenses		
Salaries and wages	12,117,171	11,614,872
Employee benefits	3,071,343	3,157,122
Supplies and other	9,894,409	10,166,822
Depreciation and amortization	<u>2,285,212</u>	<u>1,729,521</u>
Total operating expenses	<u>27,368,135</u>	<u>26,668,337</u>
Operating income	<u>2,616,463</u>	<u>1,674,270</u>
Nonoperating revenues (expenses), net		
Tax levy	721,324	686,145
Interest expense	(498,072)	(323,536)
Investment income	148,076	88,255
Noncapital grants and contributions	83,051	73,876
Gain (loss) on disposal of capital assets	<u>17,048</u>	<u>(39,093)</u>
Total nonoperating revenues (expenses), net	<u>471,427</u>	<u>485,647</u>
Revenues in excess of expenses before capital contributions	3,087,890	2,159,917
Capital contributions	<u> </u>	<u>2,533,592</u>
Change in net position	3,087,890	4,693,509
Net position at beginning of year	<u>17,027,767</u>	<u>12,334,258</u>
Net position at end of year	<u><u>\$ 20,115,657</u></u>	<u><u>\$ 17,027,767</u></u>

The accompanying notes are an integral part of these statements.

**Clay County Medical Center
Statements of Cash Flows
Year ended December 31,**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 27,299,676	\$ 22,331,742
Payments to or on behalf of employees	(15,080,396)	(14,589,029)
Payments for suppliers and services	(10,135,703)	(10,086,086)
Other receipts and payments	<u>4,416,922</u>	<u>3,611,285</u>
Net cash provided by operating activities	<u>6,500,499</u>	<u>1,267,912</u>
Cash flows from noncapital financing activities		
Tax levy	721,324	686,145
Noncapital grants and contributions	<u>83,051</u>	<u>73,876</u>
Net cash provided by noncapital financing activities	<u>804,375</u>	<u>760,021</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,954,613)	(12,070,679)
Proceeds from sale of capital assets	48,213	18,449
Principal payments on long-term debt	(510,000)	(262,691)
Capital contributions received		2,533,592
Interest paid	<u>(559,350)</u>	<u>(565,504)</u>
Net cash used by capital and related financing activities	<u>(2,975,750)</u>	<u>(10,346,833)</u>
Cash flows from investing activities		
Change in assets whose use is limited held by trustee	347,883	9,146,150
Change in other investments	88,860	149,768
Investment income received	<u>148,076</u>	<u>88,255</u>
Net cash provided by investing activities	<u>584,819</u>	<u>9,384,173</u>
Net increase in cash and cash equivalents	4,913,943	1,065,273
Cash and cash equivalents at beginning of year	<u>7,469,070</u>	<u>6,403,797</u>
Cash and cash equivalents at end of year	<u>\$ 12,383,013</u>	<u>\$ 7,469,070</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 7,619,095	\$ 4,336,661
Cash included in assets whose use is limited by Board of Trustees	<u>4,763,918</u>	<u>3,132,409</u>
	<u>\$ 12,383,013</u>	<u>\$ 7,469,070</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>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,616,463	\$ 1,674,270
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,285,212	1,729,521
Provision for bad debts	748,509	1,508,187
Changes in		
Accounts receivable	(96,890)	(1,996,445)
Other receivables	128,085	(627,768)
Estimated settlements with third-party payors	954,846	(1,282,553)
Inventories and prepaid expenses	(198,332)	(31,666)
Accounts payable and accrued expenses	<u>62,606</u>	<u>294,366</u>
Net cash provided by operating activities	<u>\$ 6,500,499</u>	<u>\$ 1,267,912</u>

The accompanying notes are an integral part of these statements.

Clay County Medical Center
Notes to Financial Statements
December 31, 2019 and 2018

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies

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.

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

1. 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.

2. 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.

3. 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.

4. 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.

5. Inventories

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

6. 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.

7. 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.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

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.

8. 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.

9. 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.

10. 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."

11. 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.

12. 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.

13. 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.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

14. 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.

15. Income taxes

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

16. 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.

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. Rural Health Clinic services are also paid on a cost reimbursement methodology. 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, 2017.

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.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note B - Reimbursement Programs - Continued

A summary of gross and net patient service revenue follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 46,790,775	\$ 44,353,929
Adjustments to patient revenue		
Third-party contractual adjustments, discounts, and allowances	(19,623,640)	(18,396,627)
Provision for bad debts	(748,509)	(1,508,187)
Charity care	(725,415)	(346,562)
Net patient service revenue	<u>\$ 25,693,211</u>	<u>\$ 24,102,553</u>

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 2019 and 2018, was \$725,415 and \$346,562, 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 \$391,120 and \$190,303 for 2019 and 2018, respectively.

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.

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 in the following accounts:

	<u>2019</u>	<u>2018</u>
Debt Service Account	\$ 101,091	\$ 448,974
	101,091	448,974
Less amounts required for current liabilities	<u>101,091</u>	<u>448,974</u>
	<u>\$ -</u>	<u>\$ -</u>

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.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note E - Capital Assets

Capital asset additions, retirements, and balances are as follows:

	2019			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 396,201	\$ 15,000	\$ -	\$ 411,201
Land improvements	1,741,581	149		1,741,730
Buildings and fixed equipment	30,518,437	522,423		31,040,860
Major movable equipment	8,302,371	593,195	103,404	8,792,162
Totals at historical cost	40,958,590	1,130,767	103,404	41,985,953
Less accumulated depreciation and amortization				
Land improvements	328,643	96,371		425,014
Buildings and fixed equipment	11,945,482	1,478,480		13,423,962
Major movable equipment	5,665,926	710,361	72,238	6,304,049
	17,940,051	2,285,212	72,238	20,153,025
	23,018,539	(1,154,445)	31,166	21,832,928
Projects in progress	60,104	1,497,208	357,949	1,199,363
Capital assets, net	<u>\$ 23,078,643</u>	<u>\$ 342,763</u>	<u>\$ 389,115</u>	<u>\$ 23,032,291</u>
	2018			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 117,377	\$ 278,824	\$ -	\$ 396,201
Land improvements	339,451	1,416,522	14,392	1,741,581
Buildings and fixed equipment	14,120,452	16,598,244	200,259	30,518,437
Major movable equipment	7,309,371	2,008,105	1,015,105	8,302,371
Totals at historical cost	21,886,651	20,301,695	1,229,756	40,958,590
Less accumulated depreciation and amortization				
Land improvements	278,250	61,224	10,831	328,643
Buildings and fixed equipment	11,121,840	1,022,927	199,285	11,945,482
Major movable equipment	5,982,802	645,370	962,246	5,665,926
	17,382,892	1,729,521	1,172,362	17,940,051
	4,503,759	18,572,174	57,394	23,018,539
Projects in progress	8,990,316	10,488,423	19,418,635	60,104
Capital assets, net	<u>\$ 13,494,075</u>	<u>\$ 29,060,597</u>	<u>\$ 19,476,029</u>	<u>\$ 23,078,643</u>

Projects in progress at December 31, 2019, consist mainly of costs incurred for the construction of two rural health clinic facilities. One of these facilities was completed in February of 2020 and the other facility is expected to be completed in the fall of 2020.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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 \$84,119. The Medical Center's equity in the undistributed net loss of CCAL since acquisition is \$100,000. The Medical Center's equity in the undistributed net loss of CH since acquisition is \$(68,082). The carrying values of MCS, CCAL, and CH are \$89,119, \$4,426, and \$234,508 at December 31, 2019, 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 \$97,000 in 2019 and \$94,000 in 2018. Amounts payable to MCS for these services were insignificant at December 31, 2019 and 2018. The Medical Center paid CH approximately \$840,000 and \$777,000 in 2019 and 2018, respectively, for premiums under its partially self-insured health insurance plan.

Note G - Long-Term Debt

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</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	\$ 15,835,000	\$ 16,345,000
Net unamortized premium on 2016 bonds	801,966	863,246
Less current maturities of long-term debt	<u>(510,000)</u>	<u>(510,000)</u>
	<u>\$ 16,126,966</u>	<u>\$ 16,698,246</u>

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>
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
2024	610,000	482,250	1,092,250
Thereafter	<u>12,910,000</u>	<u>4,716,650</u>	<u>17,626,650</u>
	<u>\$ 15,835,000</u>	<u>\$ 7,306,100</u>	<u>\$ 23,141,100</u>

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note G - Long-Term Debt - Continued

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

Principal outstanding at January 1, 2018	\$ 16,585,540
2018 Payment of debt	<u>(240,540)</u>
Principal outstanding at December 31, 2018	16,345,000
2019 Payment of debt	<u>(510,000)</u>
Principal outstanding at December 31, 2019	<u>\$ 15,835,000</u>

Total interest costs are summarized as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	\$ 559,352	\$ 565,504
Amortization of bond premium	(61,280)	(39,954)
Interest capitalized	<u> </u>	<u>(202,014)</u>
Interest expense	<u>\$ 498,072</u>	<u>\$ 323,536</u>

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, 2020. 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, work 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.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note I - Pension Plan - Continued

For the years ended December 31, 2019 and 2018, the Hospital and covered employees' contributions to the Plan were as follows:

	<u>2019</u>	<u>2018</u>
Hospital contributions	\$ 360,168	\$ 345,704
Employee contributions	575,403	592,016

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>2019</u>	<u>2018</u>
Estimated employee health insurance claims payable at beginning of period	\$ 229,000	\$ 104,362
Provision for employer's share of incurred claims expenses for the period, net of any reinsurance proceeds	1,557,388	1,477,608
Employee contributions	558,596	541,259
Payments made for claims, expenses, and reinsurance premiums	<u>(2,141,984)</u>	<u>(1,894,229)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 203,000</u>	<u>\$ 229,000</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 \$136,000 and \$130,000 for 2019 and 2018, respectively.

Clay County Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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 in capital contributions in 2018. 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. The Medical Center did not receive any contributions from the Foundation in 2019.

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 \$12,381,463 and the bank balance was \$12,571,450 at December 31, 2019. The bank balance is categorized as follows at December 31, 2019:

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	\$ 1,250,000
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>11,321,450</u>
	<u>\$ 12,571,450</u>

Note N - Subsequent Events

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

In January of 2020, the Medical Center entered into an agreement for the use of licensed software including electronic health records technology. The contract is for a period of 7 years and includes payments of approximately \$1,896,000 for fixed technology fees and \$600,000 in various milestone payments during the implementation. Monthly fees of approximately \$31,000 are also included in the contract. Travel costs for the installation are estimated to be approximately \$150,000.

In October of 2019, the Medical Center entered into a purchase order for CT Scan equipment in the amount of approximately \$494,000. The equipment will be installed during the summer of 2020.

Subsequent to year-end, the Medical Center has been negatively impacted by the effects of the worldwide coronavirus pandemic. The Medical Center is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Medical Center's financial position is not known.

Supplementary Information

Clay County Medical Center
Net Patient Service Revenue
Year ended December 31,

	2019			2018
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 3,612,666	\$ 261,199	\$ 3,873,865	\$ 4,080,706
Nursery	61,410	289	61,699	61,392
Surgery, recovery, and treatment room	87,067	1,306,533	1,393,600	1,292,793
Labor and delivery	120,000	11,466	131,466	155,910
Medical and surgical supplies	500,631	495,357	995,988	1,003,079
Emergency room and observation	100,738	4,908,322	5,009,060	4,321,064
Laboratory	732,315	4,886,002	5,618,317	5,597,828
Blood administration	41,530	54,489	96,019	104,452
Radiology	300,604	3,318,885	3,619,489	3,366,571
Nuclear medicine	14,802	737,391	752,193	715,515
Sonograms	15,395	418,561	433,956	421,997
Computerized tomography	963,644	5,284,082	6,247,726	6,011,940
Mammography		319,366	319,366	298,901
Vascular studies, telemetry, and cardiology	147,051	1,190,439	1,337,490	1,411,742
Clinics	6,151	1,122,441	1,128,592	576,557
Pharmacy	733,353	3,233,687	3,967,040	3,607,578
Intravenous therapy	165,555	99,245	264,800	311,788
Anesthesiology	87,098	1,653,741	1,740,839	1,378,712
Respiratory therapy	810,685	223,853	1,034,538	1,063,534
Physical therapy	292,834	1,178,783	1,471,617	1,399,140
Occupational therapy	133,585	336,162	469,747	476,635
Speech therapy	201,368	328,465	529,833	539,391
Hospice	10,852	2,075,868	2,086,720	1,857,277
Rural health clinic		4,168,405	4,168,405	4,285,167
Pulmonary rehabilitation		38,410	38,410	14,260
Gross patient service revenue	<u>\$ 9,139,334</u>	<u>\$ 37,651,441</u>	46,790,775	44,353,929
Adjustments to gross patient service revenue				
Contractual adjustments, discounts, and allowances			(19,623,640)	(18,396,627)
Provision for bad debts			(748,509)	(1,508,187)
Charity care			<u>(725,415)</u>	<u>(346,562)</u>
Net patient service revenue			<u>\$ 25,693,211</u>	<u>\$ 24,102,553</u>

Clay County Medical Center
Operating Expenses
Year ended December 31,

	2019			2018
	<u>Salaries and wages</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 1,306,969	\$ 516,078	\$ 1,823,047	\$ 2,001,493
Nursing administration	121,837	17,717	139,554	162,497
Nursery	40,216	1,820	42,036	72,120
Surgery, recovery, and treatment room	520,062	165,524	685,586	968,552
Surgery clinic	18,836		18,836	37,101
Labor and delivery	80,430	20,035	100,465	110,651
Medical and surgical supplies		233,428	233,428	224,340
Emergency room	1,074,182	101,792	1,175,974	1,160,454
Laboratory	422,117	510,463	932,580	1,044,563
Blood administration		50,563	50,563	50,708
Radiology	324,868	236,835	561,703	588,499
Nuclear medicine		125,058	125,058	117,144
Sonogram	32,596	21,486	54,082	76,910
Computerized tomography	82,753	101,844	184,597	185,424
Mammography	35,782	10,262	46,044	77,969
Vascular studies and cardiology	180,884	5,864	186,748	160,023
Clinics	172,909	297,842	470,751	218,065
Pharmacy	45,357	1,520,492	1,565,849	1,454,518
Intravenous therapy	125,263	30,352	155,615	218,837
Anesthesiology		379,872	379,872	369,869
Respiratory therapy	195,928	34,086	230,014	233,787
Physical, occupational, and speech therapy	790,061	73,304	863,365	795,048
Wellness	103,426	47,152	150,578	161,791
Hospice	721,027	883,167	1,604,194	1,493,065
Dietary	240,185	155,804	395,989	384,564
Operation of plant	134,307	741,982	876,289	861,113
Housekeeping	178,568	61,042	239,610	218,935
Laundry	70,364	15,741	86,105	89,197
Medical records	311,294	140,097	451,391	486,493
Fiscal services	892,110	515,958	1,408,068	1,144,627
Purchasing	69,496	12,903	82,399	94,975
Administrative services	884,962	775,489	1,660,451	1,791,303
Employee benefits		3,071,343	3,071,343	3,157,122
Depreciation and amortization		2,285,212	2,285,212	1,729,521
Rural health clinic	2,931,012	408,035	3,339,047	3,090,851
Pulmonary rehabilitation	9,370	405	9,775	4,820
340B		1,681,917	1,681,917	1,631,388
	<u>\$ 12,117,171</u>	<u>\$ 15,250,964</u>	<u>\$ 27,368,135</u>	<u>\$ 26,668,337</u>

**Clay County Medical Center
Summary of Insurance Coverage
December 31, 2019**

	<u>Policy number</u>	<u>Policy expiration date</u>	<u>Amount</u>
Property - All locations including Medical Arts Bldg	35978042	01/01/20	\$44,917,874
Workmen's compensation Employer liability	Certificate #8	01/01/20	Statutory 500,000/500,000
Crime - Employee Theft	EPP 0367804	01/01/20	100,000
Crime - Forgery/Alteration	EPP 0367804	01/01/20	10,000
Crime - Computer Fraud	EPP 0367804	01/01/20	100,000
Crime - Funds Transfer Fraud	EPP 0367804	01/01/20	100,000
Medical Center liability	HPL0021603	12/31/19	
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			25,000/100,000
Professional liability - Kansas Health Care Stabilization Fund	HPL0021603	12/31/19	800,000/2,400,000
Employed providers	MPL11623	12/31/19	200,000/600,000
Health Care Stabilization Fund			800,000/2,400,000
Cyber liability			50,000/100,000
Trustees and officers' liability	EPP4917655	01/27/20	1,000,000/1,000,000
Auto	EPP 0367804	01/01/20	
Comprehensive and collision Liability			Full coverage 1,000,000
Employment Practices Liability	EPP4917655	01/27/20	1,000,000/1,000,000

**Clay County Medical Center
Patient Accounts Receivable
December 31,**

	<u>2019</u>	<u>2018</u>
Age of patients' accounts		
0 - 30 days	\$ 3,701,946	\$ 3,691,557
31 - 60 days	781,074	1,392,797
61 - 90 days	355,715	637,542
Over 90 days	<u>4,710,275</u>	<u>6,196,995</u>
	9,549,010	11,918,891
Less:		
Allowance for doubtful accounts	(4,597,747)	(5,778,589)
Allowance for contractual adjustments	<u>(2,083,339)</u>	<u>(2,620,759)</u>
	<u>\$ 2,867,924</u>	<u>\$ 3,519,543</u>

Clay County Medical Center
Balance in Depository Compared with Depository Security
December 31, 2019

	Farmers & Merchants State Bank Wakefield, <u>Kansas</u>	Girard National Bank Clay Center, <u>Kansas</u>
Bank balances December 31, 2019	\$ 7,580,855	\$ 379,106
Less F.D.I.C. coverage	<u>250,000</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 7,330,855</u>	<u>\$ 129,106</u>
Market value of securities pledged	<u>\$ 8,002,410</u>	<u>\$ 250,000</u>

Clay County Medical Center
Balance in Depository Compared with Depository Security - Continued
December 31, 2019

	Kaw Valley Bank St. Marys, <u>Kansas</u>	Union State Bank Clay Center, <u>Kansas</u>	United Bank & Trust Clay Center, <u>Kansas</u>
Bank balances December 31, 2019	\$ 2,021,358	\$ 1,621,798	\$ 968,333
Less F.D.I.C. coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 1,771,358</u>	<u>\$ 1,371,798</u>	<u>\$ 718,333</u>
Market value of securities pledged	<u>\$ 2,230,692</u>	<u>\$ 4,078,528</u>	<u>\$ 2,254,520</u>

**Clay County Medical Center
Statistical Data
(Unaudited)
Year ended December 31,**

	<u>2019</u>	<u>2018</u>
Patient days		
Routine nursing care		
Acute care	1,980	2,009
Swing-bed care		
Skilled	1,887	1,931
Nursery	74	71
Discharges (excluding newborn)	810	808
Admissions (excluding newborn)	805	815
Number of licensed beds (excluding nursery)	25	25
Total patient days (excluding nursery)	3,867	3,940
Percent of occupancy (excluding nursery)	42.38%	43.18%
Medicare patient days		
Routine nursing care		
Acute care	1,475	1,419
Swing-bed care	1,748	1,757
Total	3,223	3,176
Medicaid patient days		
Routine nursing care		
Acute care	129	87
Nursery	30	23
Total	159	110
Rural health clinic visits	23,630	24,491