

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



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

Contents

Independent Auditor’s Report 1

Financial Statements

Balance Sheets..... 3
Statements of Revenues, Expenses and Changes in Net Position 4
Statements of Cash Flows 5
Notes to Financial Statements 7

Independent Auditor's Report

Board of Trustees
Lane County Hospital
Dighton, Kansas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lane County Hospital as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
May 1, 2019

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

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 137,523	\$ 404,842
Patient accounts receivable, net of allowance; 2018 – \$127,759; 2017 – \$137,921	601,935	412,944
Estimated amounts due from third-party payers	223,000	256,958
Supplies	71,892	89,411
Prepaid expenses and other	<u>115,254</u>	<u>125,736</u>
Total current assets	<u>1,149,604</u>	<u>1,289,891</u>
 Noncurrent Cash		
Board designated for capital acquisitions	259,266	169,010
Restricted by donors for specific operating activities	<u>8,013</u>	<u>3,615</u>
	<u>267,279</u>	<u>172,625</u>
 Capital Assets, Net	<u>615,686</u>	<u>675,299</u>
 Other Assets	<u>145,380</u>	<u>145,380</u>
Total assets	<u><u>\$ 2,177,949</u></u>	<u><u>\$ 2,283,195</u></u>

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 15,688	\$ 20,573
Accounts payable	86,903	103,229
Accrued salaries and wages	135,096	158,275
Accrued vacation	147,004	148,308
Other accrued expenses	117,814	145,045
	<u>502,505</u>	<u>575,430</u>
Long-term Debt	<u>5,832</u>	<u>21,520</u>
	<u>508,337</u>	<u>596,950</u>
Net Position		
Net investment in capital assets	594,166	633,206
Restricted - expendable for		
Specific operating activities	8,013	3,615
Unrestricted	1,067,433	1,049,424
	<u>1,669,612</u>	<u>1,686,245</u>
	<u>\$ 2,177,949</u>	<u>\$ 2,283,195</u>

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

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$57,909; 2017 – \$26,634	\$ 4,718,521	\$ 4,621,211
Other	372,724	434,369
Total operating revenues	5,091,245	5,055,580
Operating Expenses		
Salaries and wages	2,588,790	2,574,243
Employee benefits	700,618	710,422
Supplies and other	2,304,707	2,328,525
Depreciation	109,452	118,155
Total operating expenses	5,703,567	5,731,345
Operating Loss	(612,322)	(675,765)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Lane County	490,643	490,787
Interest income	7,678	4,589
Interest expense	(1,759)	(3,377)
Noncapital grants and gifts	26,893	25,342
Impairment gain	72,234	-
Total nonoperating revenues	595,689	517,341
Decrease in Net Position	(16,633)	(158,424)
Net Position, Beginning of Year	1,686,245	1,844,669
Net Position, End of Year	\$ 1,669,612	\$ 1,686,245

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

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients and third-party payers	\$ 4,563,488	\$ 4,708,325
Payments to suppliers	(2,993,650)	(3,035,477)
Payments to and on behalf of employees	(2,640,504)	(2,512,345)
Other receipts, net	<u>372,724</u>	<u>434,369</u>
Net cash used in operating activities	<u>(697,942)</u>	<u>(405,128)</u>
Noncapital Financing Activities		
Noncapital appropriations - Lane County	490,643	490,787
Noncapital grants and gifts	<u>26,893</u>	<u>25,342</u>
Net cash provided by noncapital financing activities	<u>517,536</u>	<u>516,129</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(20,573)	(31,896)
Interest payments on long-term debt	(1,759)	(3,377)
Purchases of capital assets	(49,839)	(45,677)
Insurance proceeds received	<u>72,234</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>63</u>	<u>(80,950)</u>
Investing Activities		
Interest income	<u>7,678</u>	<u>4,589</u>
Net cash provided by investing activities	<u>7,678</u>	<u>4,589</u>
Increase (Decrease) in Cash	(172,665)	34,640
Cash, Beginning of Year	<u>577,467</u>	<u>542,827</u>
Cash, End of Year	<u>\$ 404,802</u>	<u>\$ 577,467</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 137,523	\$ 404,842
Cash in noncurrent cash	<u>267,279</u>	<u>172,625</u>
Total cash	<u>\$ 404,802</u>	<u>\$ 577,467</u>

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

	2018	2017
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (612,322)	\$ (675,765)
Depreciation	109,452	118,155
Provision for uncollectible accounts	57,909	26,634
Changes in operating assets and liabilities		
Patient accounts receivable	(246,900)	96,571
Estimated amounts due from and to third-party payers	33,958	(36,091)
Supplies	17,519	(6,593)
Prepaid expenses and other	10,482	(3,251)
Accounts payable and accrued expenses	(68,040)	75,212
Net cash used in operating activities	\$ (697,942)	\$ (405,128)

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

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

Nature of Operations and Reporting Entity

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an appointed Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Noncapital Appropriations – Lane County

The Hospital received approximately 9% in 2018 and 9% in 2017 of its financial support from Lane County property tax levy, sales taxes and miscellaneous appropriations. 100% of tax support is used for operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

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

Risk Management

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

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

The following estimated useful lives are being used by the Hospital:

Land improvements	5-50 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

Impairment gain of \$72,234 was recognized for a replacement Hospital roof during the year ended December 31, 2018, based on a storm that totaled the Hospital roof. The old Hospital roof had no remaining asset value and the Hospital received \$72,234 in insurance proceeds during 2018. No asset impairment was recognized during the year ended December 31, 2017.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

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

Included in unrestricted net position is Board designated funds set aside for capital acquisitions over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

Electronic Health Records Incentive Program

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

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

The Hospital has recognized the incentive payment revenue of \$0 and \$31,958 for the years ended December 31, 2018 and 2017, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 78% and 84% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

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

Note 3: Deposits

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

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

At December 31, 2018 and 2017, respectively, \$179,357 and \$346,678 of the Hospital's bank balances of \$429,857 and \$597,178 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 179,357</u>	<u>\$ 346,678</u>

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 404,602	\$ 577,267
Petty cash	200	200
	<u>\$ 404,802</u>	<u>\$ 577,467</u>
Included in the following balance sheet captions		
Cash	\$ 137,523	\$ 404,842
Board designated for capital acquisitions	259,266	169,010
Restricted by donors for specific operating activities	8,013	3,615
	<u>\$ 404,802</u>	<u>\$ 577,467</u>

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

Note 4: Patient Accounts Receivable

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

	<u>2018</u>	<u>2017</u>
Medicare	\$ 388,853	\$ 207,291
Medicaid	15,083	20,882
Blue Cross	53,542	45,088
Other third-party payers	52,663	74,908
Self-pay	219,553	202,696
	<u>729,694</u>	<u>550,865</u>
Less allowance for uncollectible accounts	<u>(127,759)</u>	<u>(137,921)</u>
	<u>\$ 601,935</u>	<u>\$ 412,944</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	<u>2018</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 29,188	\$ -	\$ -	\$ -	\$ 29,188
Land improvements	54,592	-	-	-	54,592
Buildings	2,599,046	49,839	(2,998)	-	2,645,887
Fixed equipment	750,814	-	-	-	750,814
Major moveable equipment	746,535	-	-	-	746,535
	<u>4,180,175</u>	<u>49,839</u>	<u>(2,998)</u>	<u>-</u>	<u>4,227,016</u>
Less accumulated depreciation					
Land improvements	27,698	3,293	-	-	30,991
Buildings	2,207,824	55,463	(2,998)	-	2,260,289
Fixed equipment	596,782	24,638	-	-	621,420
Major moveable equipment	672,572	26,058	-	-	698,630
	<u>3,504,876</u>	<u>109,452</u>	<u>(2,998)</u>	<u>-</u>	<u>3,611,330</u>
Capital Assets, Net	<u>\$ 675,299</u>	<u>\$ (59,613)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 615,686</u>

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

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 29,188	\$ -	\$ -	\$ -	\$ 29,188
Land improvements	54,592	-	-	-	54,592
Buildings	2,599,046	-	-	-	2,599,046
Fixed equipment	740,111	30,521	(19,818)	-	750,814
Major moveable equipment	731,379	15,156	-	-	746,535
	<u>4,154,316</u>	<u>45,677</u>	<u>(19,818)</u>	<u>-</u>	<u>4,180,175</u>
Less accumulated depreciation					
Land improvements	24,405	3,293	-	-	27,698
Buildings	2,152,469	55,355	-	-	2,207,824
Fixed equipment	592,360	24,240	(19,818)	-	596,782
Major moveable equipment	637,305	35,267	-	-	672,572
	<u>3,406,539</u>	<u>118,155</u>	<u>(19,818)</u>	<u>-</u>	<u>3,504,876</u>
Capital Assets, Net	<u>\$ 747,777</u>	<u>\$ (72,478)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 675,299</u>

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

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

Note 7: Long-term Obligations

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

	2018					
	Beginning			Ending	Current	Long-term
	Balance	Additions	Deductions	Balance	Portion	Portion
Capital lease obligations	\$ 42,093	\$ -	\$ 20,573	\$ 21,520	\$ 15,688	\$ 5,832
	2017					
	Beginning			Ending	Current	Long-term
	Balance	Additions	Deductions	Balance	Portion	Portion
Capital lease obligations	\$ 73,989	\$ -	\$ 31,896	\$ 42,093	\$ 20,573	\$ 21,520

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases for the years ended December 31 are as follows:

	2018	2017
Equipment	\$ 108,361	\$ 108,361
Accumulated depreciation	(92,132)	(72,634)
	\$ 16,229	\$ 35,727

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 4.75% to 8.00% together with the present value of the future minimum lease payments as of December 31:

	Capital Lease	
	Principal	Interest
Year Ending December 31,		
2019	\$ 15,688	\$ 874
2020	2,800	365
2021	3,032	133
	\$ 21,520	\$ 1,372

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

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$7,887 and \$3,406 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: Pension Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who are at least 18 years of age and have completed one or more hours of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The employer also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$102,224 and \$102,224 during 2018 and \$99,920 and \$99,920 during 2017, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$44,691 and \$50,828 during 2018 and 2017, respectively. The plan year begins on January 1 and ends December 31.

Note 10: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2018 and 2017, were \$463,355 and \$441,090, respectively. Amounts due to GPHA at December 31, 2018 and 2017, totaled \$34,376 and \$36,408, respectively.

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

Note 11: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$321,497 and \$395,630 for the years ending December 31, 2018 and 2017, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$203,966 and \$276,200 for the years ending December 31, 2018 and 2017, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2018 and 2017.

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

Note 13: Future Change in Accounting Principle

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.