

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
DECEMBER 31, 2018 AND 2017

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	3
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	7

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Trego County-Lemke Memorial Hospital

We have audited the accompanying financial statements of the business-type activity of Trego County-Lemke Memorial Hospital (Hospital), a component unit of Trego County, Kansas, as of and for the years ended December 31, 2018 and 2017, which collectively comprise the Hospital'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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Trego County-Lemke Memorial Hospital as of December 31, 2018 and 2017, and the respective changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

The Hospital 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.

Wendling Noe Nelson & Johnson 22C

Topeka, Kansas
June 26, 2019

FINANCIAL STATEMENTS

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
STATEMENTS OF NET POSITION
December 31,

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 186,578	\$ 359,887
Patient accounts receivable, net	2,891,604	2,149,762
Other receivables	149,215	154,199
Estimated third-party payor settlements		429,358
Inventories	218,388	206,012
Prepaid expenses	<u>113,722</u>	<u>155,518</u>
Total current assets	<u>3,559,507</u>	<u>3,454,736</u>
ASSETS LIMITED AS TO USE		
By Board of Trustees	2,279,690	1,481,158
By donors for specific operating activities	<u>32,895</u>	<u>9,450</u>
Total assets limited as to use	<u>2,312,585</u>	<u>1,490,608</u>
CAPITAL ASSETS, NET	<u>3,126,726</u>	<u>3,459,388</u>
Total assets	<u>\$ 8,998,818</u>	<u>\$ 8,404,732</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current portion of capital lease obligations	\$ 25,235	\$ 21,743
Accounts payable	464,412	400,519
Accrued salaries, wages, and benefits	490,077	493,374
Accrued compensated absences	585,486	599,404
Estimated third-party payor settlements	317,936	
Other accrued liabilities	217,937	
Total current liabilities	2,101,083	1,515,040
CAPITAL LEASES, net of current portion	89,665	22,729
Total liabilities	2,190,748	1,537,769
NET POSITION		
Invested in capital assets, net of related debt	3,011,825	3,414,917
Expendable for specific operating activities	32,895	9,450
Unrestricted	3,763,350	3,442,596
Total net position	6,808,070	6,866,963
Total liabilities and net position	\$ 8,998,818	\$ 8,404,732

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 14,783,709	\$ 14,620,030
Assisted living	107,902	190,261
Other	<u>1,381,849</u>	<u>1,651,077</u>
Total operating revenues	<u>16,273,460</u>	<u>16,461,368</u>
Operating expenses		
Salaries and wages	7,953,297	7,918,950
Employee benefits	2,244,978	2,329,788
Supplies and other	6,529,913	6,803,177
Depreciation	<u>507,848</u>	<u>555,705</u>
Total operating expenses	<u>17,236,036</u>	<u>17,607,620</u>
Operating loss	<u>(962,576)</u>	<u>(1,146,252)</u>
Nonoperating revenues and expenses		
Noncapital appropriations - Trego County	700,000	700,000
Noncapital grants and contributions	10,779	7,038
Interest income	37,006	19,881
Interest expense	(6,656)	(3,400)
Gain (loss) on disposal of equipment	<u>3,883</u>	<u>(13,769)</u>
Total nonoperating revenues	<u>745,012</u>	<u>709,750</u>
Excess of expenses over revenues before capital grants and contributions	(217,564)	(436,502)
Capital grants and contributions	<u>158,671</u>	<u>595,240</u>
Increase (decrease) in net position	(58,893)	158,738
Net position, beginning of year	<u>6,866,963</u>	<u>6,708,225</u>
Net position, end of year	<u>\$ 6,808,070</u>	<u>\$ 6,866,963</u>

The accompanying notes are an integral part of these statements.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
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	\$ 14,897,063	\$ 14,569,148
Payments to or on behalf of employees	(10,215,490)	(10,148,482)
Payments for supplies and services	(6,218,663)	(6,910,626)
Other receipts and payments	<u>1,386,833</u>	<u>1,681,762</u>
Net cash used by operating activities	<u>(150,257)</u>	<u>(808,198)</u>
Cash flows from noncapital financing activities		
Interest paid	(619)	(1,271)
Noncapital appropriations - Trego County	700,000	700,000
Noncapital contributions	<u>10,779</u>	<u>7,038</u>
Net cash provided by noncapital financing activities	<u>710,160</u>	<u>705,767</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(80,883)	(1,038,791)
Grants and contributions for capital	158,671	595,240
Principal payments on long-term debt and capital lease obligations	(50,528)	(58,820)
Insurance proceeds or proceeds from sale of equipment	30,536	2,812
Interest paid on capital related debt	<u>(6,037)</u>	<u>(2,129)</u>
Net cash provided (used) by capital and related financing activities	<u>51,759</u>	<u>(501,688)</u>
Cash flows from investing activities		
Interest received	<u>37,006</u>	<u>19,881</u>
Net cash provided by investing activities	<u>37,006</u>	<u>19,881</u>
Change in cash and cash equivalents	648,668	(584,238)
Cash and cash equivalents at beginning of year	<u>1,850,495</u>	<u>2,434,733</u>
Cash and cash equivalents at end of year	<u>\$ 2,499,163</u>	<u>\$ 1,850,495</u>

The accompanying notes are an integral part of these statements.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents included in current assets	\$ 186,578	\$ 359,887
Cash included in assets limited as to use	<u>2,312,585</u>	<u>1,490,608</u>
	<u>\$ 2,499,163</u>	<u>\$ 1,850,495</u>
	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (962,576)	\$ (1,146,252)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	507,848	555,705
Provision for bad debts	427,659	271,171
Changes in		
Patient accounts receivable	(1,169,501)	(580,814)
Other receivables	4,984	30,685
Inventories and prepaid expenses	29,420	(60,599)
Accounts payable and accrued expenses	264,615	53,406
Estimated third-party payor settlements	<u>747,294</u>	<u>68,500</u>
Net cash used by operating activities	<u>\$ (150,257)</u>	<u>\$ (808,198)</u>

The accompanying notes are an integral part of these statements.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Trego County-Lemke Memorial Hospital (Hospital) is located in WaKeeney, Kansas, and was created by statute for the purpose of providing acute, long-term care services, rural health clinic services, and assisted living services. The Hospital is governed by a seven-member Board of Trustees appointed by the Trego County Board of Commissioners. The Hospital is a component unit of Trego County (County). The Hospital is licensed as a Critical Access Hospital (CAH) with a bed capacity of 25 beds.

2. 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.

3. Basis of accounting

The Hospital's financial statements are comprised solely of an enterprise fund and utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Cash and cash equivalents

For purposes of the statements of cash flow, the Hospital considers all cash and highly-liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents, including any such amounts included as assets limited as to use. This represents an accounting policy change as previously the amounts listed as assets limited as to use were excluded from the definition. Comparative financial statements of prior years have been restated to reflect this change. This restatement had no effect on previously reported net position or the change in net position of the Hospital.

5. Patient accounts receivable

The Hospital reports patient accounts receivable at net realizable amounts from third-party payors, patients, and others.

The Hospital provides an allowance for uncollectible accounts based on the aging of its accounts receivable, historical collection experience, and existing economic conditions.

6. Inventories

Inventories are stated at the lower of cost as determined by the first-in, first-out method or net realizable value.

7. Assets limited as to use

Assets limited as to use include cash set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and cash restricted by donors for specific operating activities.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are substantially in conformity with useful life 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 items or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Accrued compensated absences

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

10. Net position

Net position of the Hospital 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 expendable net position" consists of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted expendable net position."

11. Operating revenues and expenses

The Hospital's statement of revenues, 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 Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, 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, charity care, contractual adjustments, and provision for bad debts, 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.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

13. Charity care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The identified amount of charges forgone for services and supplies furnished under the Hospital's charity care policy is disclosed in Note B.

14. Noncapital appropriations - Trego County

The Hospital received approximately 4 percent in 2018 and 2017 of its financial support from noncapital appropriations from the County sales and property tax levies. These funds were used to support operations in both years. Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Revenue from property taxes is recognized in the year for which the taxes are levied.

15. Income taxes

As an essential government entity, 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. The Hospital has also been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements 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 - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital'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 Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

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 under a cost-based prospective reimbursement methodology based upon costs

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE - Continued

of previous years adjusted for inflation, statewide limits, and other factors. The Hospital submits annual cost reports for the long-term care facility to the State. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

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.

Approximately 69 and 65 percent of net patient service revenue is 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 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.

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 rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net patient service revenue consists of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 21,600,534	\$ 21,473,667
Contractual adjustments		
Medicare	(4,930,062)	(4,787,978)
Medicaid	(42,748)	(461,498)
Blue Cross	(778,240)	(725,159)
Other	(538,114)	(407,199)
Administrative adjustments	(74,308)	(188,029)
Charity care	(25,694)	(12,603)
Provision for uncollectible accounts	<u>(427,659)</u>	<u>(271,171)</u>
Net patient service revenue	<u>\$ 14,783,709</u>	<u>\$ 14,620,030</u>

The Hospital 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 \$25,694 and \$12,603, respectively. The Hospital estimates that the cost of providing charity care, based on an overall cost-to-charge ratio, was \$19,033 and \$9,546 for 2018 and 2017, respectively.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged and deposited with designated depositories for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2018, the carrying amount of the Hospital's bank deposits was \$2,499,000, and the bank balances were \$2,830,122. The bank balances are covered by federal depository insurance or pledged securities, which are held in the name of the financial institution and pledged on behalf of the Hospital.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 186,415
Assets limited as to use	<u>2,312,585</u>
Total bank deposits	<u>\$ 2,499,000</u>

NOTE D - PATIENT ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Medicare	\$ 2,565,227	\$ 1,892,517
Medicaid	280,326	167,046
Blue Cross	265,050	284,381
Other third-party payors	446,791	285,947
Self-pay	<u>982,720</u>	<u>839,059</u>
	<u>4,540,114</u>	<u>3,468,950</u>
Less allowances		
Contractual adjustments	(976,771)	(853,398)
Uncollectible accounts	<u>(671,739)</u>	<u>(465,790)</u>
	<u>(1,648,510)</u>	<u>(1,319,188)</u>
Net patient accounts receivable	<u>\$ 2,891,604</u>	<u>\$ 2,149,762</u>

The Hospital's allowance for uncollectible accounts on amounts due from patients was 68 percent and 56 percent of self-pay accounts receivable as of December 31, 2018 and 2017, respectively. The Hospital's net bad debt write-offs were \$224,705 and \$452,279 for the years ended December 31, 2018 and 2017, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended December 31, 2018 or 2017. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - CAPITAL ASSETS

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

	2018			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Land improvements	108,934			108,934
Buildings	6,994,460	52,111		7,046,571
Fixed equipment	2,941,188			2,941,188
Movable equipment	<u>3,725,366</u>	<u>149,728</u>	<u>119,936</u>	<u>3,755,158</u>
Totals at historical cost	<u>13,772,448</u>	<u>201,839</u>	<u>119,936</u>	<u>13,854,351</u>
Less accumulated depreciation				
Land improvements	107,414	494		107,908
Buildings	4,970,015	218,811		5,188,826
Fixed equipment	2,595,394	27,600		2,622,994
Movable equipment	<u>2,640,237</u>	<u>260,943</u>	<u>93,283</u>	<u>2,807,897</u>
	<u>10,313,060</u>	<u>507,848</u>	<u>93,283</u>	<u>10,727,625</u>
Capital assets, net	<u>\$ 3,459,388</u>	<u>\$ (306,009)</u>	<u>\$ 26,653</u>	<u>\$ 3,126,726</u>
	2017			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Land improvements	108,934			108,934
Buildings	6,994,460			6,994,460
Fixed equipment	2,817,738	123,450		2,941,188
Movable equipment	<u>3,348,345</u>	<u>550,139</u>	<u>173,118</u>	<u>3,725,366</u>
Totals at historical cost	<u>13,271,977</u>	<u>673,589</u>	<u>173,118</u>	<u>13,772,448</u>
Less accumulated depreciation				
Land improvements	106,920	494		107,414
Buildings	4,746,430	223,585		4,970,015
Fixed equipment	2,568,309	27,085		2,595,394
Movable equipment	<u>2,492,233</u>	<u>304,541</u>	<u>156,537</u>	<u>2,640,237</u>
	<u>9,913,892</u>	<u>555,705</u>	<u>156,537</u>	<u>10,313,060</u>
Capital assets, net	<u>\$ 3,358,085</u>	<u>\$ 117,884</u>	<u>\$ 16,581</u>	<u>\$ 3,459,388</u>

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - CAPITAL ASSETS - Continued

Capital assets include the following property under capital leases at December 31:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 147,101	\$ 120,214
Less accumulated amortization	<u>44,288</u>	<u>88,857</u>
	<u>\$ 102,813</u>	<u>\$ 31,357</u>

NOTE F - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital lease obligations (5.97 percent to 8.0 percent)	\$ 114,900	\$ 44,472
Less current portion	<u>25,235</u>	<u>21,743</u>
Noncurrent portion	<u>\$ 89,665</u>	<u>\$ 22,729</u>

Long-term debt activity for the years ended December 31, is as follows:

2018						
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Capital leases	\$ 44,472	\$ 120,957	\$ (50,529)	\$ 114,900	\$ 25,235	\$ 89,665
	<u>\$ 44,472</u>	<u>\$ 120,957</u>	<u>\$ (50,529)</u>	<u>\$ 114,900</u>	<u>\$ 25,235</u>	<u>\$ 89,665</u>
2017						
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Capital leases	\$ 103,292	\$ -	\$ (58,820)	\$ 44,472	\$ 21,743	\$ 22,729
	<u>\$ 103,292</u>	<u>\$ -</u>	<u>\$ (58,820)</u>	<u>\$ 44,472</u>	<u>\$ 21,743</u>	<u>\$ 22,729</u>

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 25,235	\$ 6,363	\$ 31,598
2020	27,116	4,732	31,848
2021	28,853	2,995	31,848
2022	26,754	1,288	28,042
2023	<u>6,942</u>	<u>69</u>	<u>7,011</u>
 Total minimum lease payments	 <u>\$114,900</u>	 <u>\$ 15,447</u>	 <u>\$130,347</u>

NOTE G - PENSION PLANS

The Hospital maintains a contributory pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older and have completed one year of service. Employer contributions are computed at the rate of 4.5 percent of annual compensation plus 9 percent of the excess over \$7,800. Employee contributions are computed at the rate of 2.5 percent of annual compensation plus 5 percent of the excess over \$7,800. Benefits are funded by an annuity contract with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits vest after one year of service with 100 percent vesting after five years of service. In case of the death or termination of an employee prior to retirement, all funds contributed by the Hospital, which are not vested, will be returned to the Hospital. Contributions actually made by plan members totaled \$443,122 and \$438,775 in 2018 and 2017, respectively. Hospital contributions totaled \$491,592 and \$471,847 in 2018 and 2017, respectively.

The Hospital provides a 403(b) plan to substantially all employees of the Hospital. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100 percent vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. The Hospital does not make contributions to the 403(b) plan.

The Hospital maintains a 457 plan for all eligible employees. Eligibility is established by all employees who elect to participate in the plan by executing a written participation agreement. The employee may contribute up to \$7,500 of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25 percent of their gross compensation per year. Benefits are funded by fixed and variable annuities with an insurance company. The Hospital does not make contributions to the 457 plan.

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 December 31, 2018 and 2017

NOTE H - MANAGEMENT/SERVICES AGREEMENT

The Board of Trustees of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA), for various services, including management and data processing 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 totaled \$722,759 and \$616,996 in 2018 and 2017, respectively. Amounts included in accounts payable related to these services totaled \$52,087 and \$50,754 at December 31, 2018 and 2017, respectively.

On September 18, 2015, the Hospital entered into a software subscription agreement for an electronic health record system with GPHA. The agreement is for an initial term of ten years beginning in January of 2017 with a monthly cost of \$38,847. After the end of the initial term, the agreement will automatically renew for successive 12-month periods, unless either party gives the other party written notice not less than 180 days prior to the end of the initial term or the then current renewal term. Future payments expected under this agreement are as follows:

	<u>Amount</u>
2019	\$ 466,161
2020	466,161
2021	466,161
2022	466,161
2023	466,161
2024	466,161
2025	466,161
2026	<u>466,161</u>
	<u>\$ 3,729,288</u>

NOTE I - TREGO HOSPITAL ENDOWMENT FOUNDATION, INC.

The Trego Hospital Endowment Foundation, Inc. (Foundation), is a not-for-profit corporation established to improve medical services to the patients in the area served by the Hospital. The Foundation is not considered a component unit of the Hospital. Foundation contributions to the Hospital of \$31,075 and \$274,852 in 2018 and 2017, respectively, have been included in the Hospital's statements of revenues, expenses, and changes in net position as capital grants and contributions.

NOTE J - COMMITMENTS AND CONTINGENCIES

In response to amendments to the 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 (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 (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

TREGO COUNTY-LEMKE MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

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 may administer insurance assessments to its member organizations based on a systematic allocation method. No assessments were made to member organizations during 2018 or 2017, and no assessment is anticipated for the plan year ending June 30, 2019.

NOTE K - RISK MANAGEMENT

The Hospital 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 Hospital 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 Hospital 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 were renewed for the policy period from November 1, 2018 to November 1, 2019. Management is not aware of any open asserted claims as of December 31, 2018. It is possible that other claims may be asserted arising from past services provided.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital 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 Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L - SUBSEQUENT EVENTS

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