

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
DECEMBER 31, 2018 AND 2017

CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	5
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	7
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	11

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2018 and 2017. Please read it in conjunction with the accompanying financial statements.

Financial highlights

Labette Health's net position increased by \$4,900,775 or 13.9 percent in 2018 and increased by \$1,012,500 or 3.0 percent in 2017.

Labette Health reported an operating income of \$2,820,853, \$722,643, and \$2,789,250 in 2018, 2017, and 2016, respectively.

Using these financial statements

Labette Health's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about Labette Health's finances is, "Is Labette Health as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about Labette Health's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report Labette Health's net position and changes in it. Labette Health's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in Labette Health's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in Labette Health's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of Labette Health.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2018 and 2017

Assets, liabilities, and net position

Labette Health's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 31,811,400	\$ 24,975,213	\$ 24,761,657
Assets limited as to use	11,133,505	10,938,054	13,276,191
Capital assets, net	27,157,727	29,464,537	30,764,986
Other assets	<u>464,143</u>	<u>595,822</u>	<u>526,247</u>
 Total assets	 <u>70,566,775</u>	 <u>65,973,626</u>	 <u>69,329,081</u>
 Deferred outflows of resources on advance refunding	 <u>370,821</u>	 <u>408,562</u>	 <u>147,570</u>
 Liabilities			
Current liabilities	(7,520,532)	(7,545,917)	(6,545,237)
Long-term liabilities	<u>(23,202,361)</u>	<u>(23,522,343)</u>	<u>(28,629,986)</u>
 Total liabilities	 <u>(30,722,893)</u>	 <u>(31,068,260)</u>	 <u>(35,175,223)</u>
 Net position	 <u>\$ 40,214,703</u>	 <u>\$ 35,313,928</u>	 <u>\$ 34,301,428</u>

Cash and cash equivalents in the current asset category increased by \$6,404,759 in 2018 and increased by \$1,112,145 in 2017. The changes in 2018 are due to cash flows from operations and investing activities being more than the cash used by capital and related financing activities.

Net patient accounts receivable increased by \$90,305 in 2018 and decreased by \$780,748 in 2017. The number of days of net revenue represented by net accounts receivable was 50 days, 56 days, and 61 days as of December 31, 2018, 2017, and 2016, respectively. The median value of similar hospitals for this ratio is 68 days.

Net capital assets decreased by \$2,306,810 in 2018 and decreased by \$1,300,449 in 2017. Capital asset acquisitions during 2018 and 2017 were funded from operating cash flow, a note payable, and capital lease obligations. Cash outlays for capital asset acquisitions totaled \$2,683,667 during 2018, of which \$1,060,417 (39.5 percent) was financed with note payable and capital lease obligations and the rest was paid for from operating cash flow. Cash outlays for capital asset acquisitions totaled \$3,203,216 during 2017, and was paid for from operating cash flow.

Labette Health issued \$15,000,000 and \$9,021,000 in bonds during January 2017 and December 2016 respectively, for the advance refunding of the 2007 bond issue.

Labette Health's net position increased by \$4,900,775 or 13.9 percent in 2018 and increased by \$1,012,500 or 3.0 percent in 2017. The percentage of total assets financed with net position, or equity, was 56.7 percent, 53.2 percent, and 49.4 percent as of December 31, 2018, 2017, and 2016, respectively.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2018 and 2017

Operating results and changes in net position

Labette Health's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 75,251,660	\$ 66,546,740	\$ 63,664,526
Operating expenses	<u>72,430,807</u>	<u>65,824,097</u>	<u>60,875,276</u>
Operating income	2,820,853	722,643	2,789,250
Ambulance subsidy	292,492	273,605	185,977
Interest expense	(951,319)	(1,236,215)	(1,813,925)
Other nonoperating revenues	2,007,273	199,624	110,311
Capital grants, contributions, and sales tax revenue	<u>731,476</u>	<u>1,052,843</u>	<u>976,424</u>
Change in net position	<u>\$ 4,900,775</u>	<u>\$ 1,012,500</u>	<u>\$ 2,248,037</u>

The first, and most significant, component of the overall change in Labette Health's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health's operating income increased by \$2,098,210 in 2018 and decreased by \$2,066,607 in 2017.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Inpatient services	\$ 51,543,575	\$ 48,974,180	\$ 49,489,322
Outpatient services	133,323,937	113,342,401	99,118,560
Physician services	<u>24,514,427</u>	<u>20,127,048</u>	<u>18,952,655</u>
Gross patient service revenue	209,381,939	182,443,629	167,560,537
Contractual adjustments	(128,036,004)	(110,957,805)	(98,115,924)
Provision for bad debts	(11,214,552)	(9,653,476)	(8,258,806)
Charity care	<u>(2,871,888)</u>	<u>(1,808,981)</u>	<u>(1,655,704)</u>
Net patient service revenue	<u>\$ 67,259,495</u>	<u>\$ 60,023,367</u>	<u>\$ 59,530,103</u>

Labette Health did not increase charge rates during 2018, but raised its charge rates by approximately 6.0 percent during 2017. Total inpatient revenues increased by 5.3 percent during 2018. This increase was a result of a 5.0 percent increase in acute and ICU patient days and a 1.7 percent increase in nursery patient days, which was partially offset by an 18.7 percent decrease in rehabilitation unit patient days. Total inpatient revenues decreased by 1.0 percent during 2017. This decrease was a result of a 10.6 percent decrease in acute and ICU patient days, a 10.5 percent decrease in nursery patient days, and a 4.6 percent decrease in rehabilitation unit patient days. These decreases in patient days were offset by the charge increases in 2017.

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2018 and 2017

Outpatient revenues increased by 17.6 percent during 2018 because of a 9.6 percent increase in outpatient registrations. Outpatient revenues increased by 14.4 percent during 2017 because of charge rate increases and an 8.0 percent increase in outpatient registrations. The change in physician services revenue is primarily due to changes in the number of physicians working for Labette Health.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors.

The provision for bad debts and charity care write-offs combined represent 6.7 percent, 6.3 percent, and 5.9 percent of gross patient service revenue during 2018, 2017, and 2016, respectively. These numbers are reflective of the current health care environment in which an increasing number of patients are uninsured or insured by plans requiring higher out-of-pocket expense covered by the insured.

Employee salaries and wages increased by \$3,685,929 or 12.9 percent during 2018 and increased by \$2,402,993 or 9.2 percent during 2017. The number of full-time equivalent employees increased by 49.47 (10.3 percent) during 2018 and increased by 41.38 (9.5 percent) during 2017.

The cost of employee benefits equaled 16.6 percent, 19.1 percent, and 20.1 percent of salaries and wages during 2018, 2017, and 2016, respectively. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased by 10.8 percent during 2018 and increased by 9.3 percent during 2017. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service. Labette Health began receiving this subsidy in 2002.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health, a component unit of Labette 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 Labette Health'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 audits 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 previously present fairly, in all material respects, the respective financial position of the business-type activity and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2018 and 2017, and the respective changes in financial position and 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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Noe Nelson Johnson LLC

Topeka, Kansas
May 21, 2019

FINANCIAL STATEMENTS

LABETTE COUNTY MEDICAL CENTER
D/B/A LABETTE HEALTH
STATEMENTS OF NET POSITION
December 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018		2017	
	Labette Health	Component units	Labette Health	Component units
CURRENT ASSETS				
Cash and cash equivalents	\$18,736,179	\$ 73	\$12,331,420	\$ 109
Investments		558,965		715,591
Assets limited as to use	112,605			
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,544,065 in 2018 and \$4,069,880 in 2017	9,270,593		9,180,288	
Due from Labette Health				2,179
Other receivables	1,579,929	105,958	1,196,560	102,246
Estimated third-party payor settlements	184,522		430,027	
Inventories	1,476,135		1,572,768	
Prepaid expenses	451,437	874	264,150	
	31,811,400	665,870	24,975,213	820,125
ASSETS LIMITED AS TO USE				
Internally designated for capital assets	10,042,823		9,983,783	
Under indenture agreement - held by trustee	113,143		5,730	
By County for capital assets	1,090,144		948,541	
Under loan agreement		29,778		4,251
By contributors for specific operating activities		533,440		511,282
	11,246,110	563,218	10,938,054	515,533
Less amounts required to meet current obligations	112,605			
	11,133,505	563,218	10,938,054	515,533
CAPITAL ASSETS, net	27,157,727	6,019,567	29,464,537	6,436,522
OTHER ASSETS				
Advances receivable	434,143		565,822	
Other	30,000	154,540	30,000	159,465
	464,143	154,540	595,822	159,465
Total assets	70,566,775	7,403,195	65,973,626	7,931,645
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on advance refunding	370,821		408,562	
Total deferred outflows of resources	370,821	-	408,562	-
Total assets and deferred outflows of resources	\$70,937,596	\$ 7,403,195	\$66,382,188	\$ 7,931,645

The accompanying notes are an integral part of these statements.