

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
Independent Auditor's Report and Financial Statements  
June 30, 2019 and 2018

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**June 30, 2019 and 2018**

**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  
Ellsworth County Medical Center  
Ellsworth, Kansas

We have audited the accompanying financial statements of Ellsworth County Medical Center (Medical Center), a component unit of Ellsworth County, Kansas, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Ellsworth County 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 provisions of 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 Ellsworth County Medical Center as of June 30, 2019 and 2018, 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 the 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 financial 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  
November 18, 2019

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Balance Sheets**  
**June 30, 2019 and 2018**

**Assets**

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash	\$ 1,582,445	\$ 1,454,715
Patient accounts receivable, net of allowance; 2019 - \$679,138; 2018 - \$968,103	2,317,308	2,955,779
Estimated amounts due from third-party payers	632,915	721,119
Supplies	185,804	172,207
Prepaid expenses and other	<u>233,751</u>	<u>198,168</u>
Total current assets	<u>4,952,223</u>	<u>5,501,988</u>
 <b>Noncurrent Cash and Investments</b>		
Designated by Board of Trustees	1,296,462	1,076,491
Restricted by donors and grantors	<u>168,804</u>	<u>28,197</u>
	<u>1,465,266</u>	<u>1,104,688</u>
 <b>Capital Assets, Net</b>	<u>2,354,000</u>	<u>2,560,284</u>
 <b>Other Assets</b>		
Advances to medical students	<u>115,576</u>	<u>117,436</u>
Total assets	<u><u>\$ 8,887,065</u></u>	<u><u>\$ 9,284,396</u></u>

## Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 494,867	\$ 502,131
Accounts payable	325,361	507,064
Accrued salaries payable	375,260	328,770
Accrued benefits payable	549,160	504,297
Other accrued liabilities	538,082	461,277
	<hr/>	<hr/>
Total current liabilities	2,282,730	2,303,539
<b>Long-term Debt</b>	444,727	666,903
	<hr/>	<hr/>
Total liabilities	2,727,457	2,970,442
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	1,414,406	1,391,250
Restricted - expendable for		
Specific operating activities	168,804	28,197
Unrestricted	4,576,398	4,894,507
	<hr/>	<hr/>
Total net position	6,159,608	6,313,954
	<hr/>	<hr/>
Total liabilities and net position	\$ 8,887,065	\$ 9,284,396
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**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$527,763; 2018 – \$744,174	\$ 15,092,019	\$ 13,629,911
Other	2,370,079	1,842,398
Total operating revenues	17,462,098	15,472,309
<b>Operating Expenses</b>		
Salaries and wages	8,759,151	8,611,805
Employee benefits	2,081,704	1,946,511
Supplies and other	6,416,658	5,647,933
Depreciation	861,136	859,112
Total operating expenses	18,118,649	17,065,361
<b>Operating Loss</b>	(656,551)	(1,593,052)
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital appropriations - Ellsworth County	224,340	224,340
Investment income	55,519	35,489
Interest expense	(44,809)	(44,101)
Loss on disposal of capital assets	-	(7,950)
Loss on investment in equity investee	-	(172,000)
Noncapital grants and gifts	267,155	252,009
Impairment gain, net of insurance recoveries	-	193,753
Total nonoperating revenues	502,205	481,540
<b>Decrease in Net Position</b>	(154,346)	(1,111,512)
<b>Net Position, Beginning of Year</b>	6,313,954	7,425,466
<b>Net Position, End of Year</b>	\$ 6,159,608	\$ 6,313,954

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 15,818,694	\$ 14,336,823
Payments to suppliers	(6,668,291)	(5,706,919)
Payments to employees	(10,672,697)	(10,390,965)
Other receipts, net	<u>2,371,939</u>	<u>1,813,175</u>
Net cash provided by operating activities	<u>849,645</u>	<u>52,114</u>
<b>Noncapital Financing Activities</b>		
Noncapital appropriations - Ellsworth County	224,340	224,340
Noncapital grants and gifts	<u>267,155</u>	<u>252,009</u>
Net cash provided by noncapital financing activities	<u>491,495</u>	<u>476,349</u>
<b>Capital and Related Financing Activities</b>		
Purchases of capital assets	(343,147)	(496,274)
Proceeds from insurance recoveries	-	193,753
Proceeds from issuance of long-term debt	-	1,073,251
Principal paid on long-term debt	(520,395)	(556,568)
Interest paid on long-term debt	<u>(44,809)</u>	<u>(44,101)</u>
Net cash provided by (used in) capital and related financing activities	<u>(908,351)</u>	<u>170,061</u>
<b>Investing Activities</b>		
Investment income	55,519	35,489
Purchases of investments	(708,983)	(200,846)
Proceeds from disposition of investments	503,411	303,072
Distribution from equity investee	<u>-</u>	<u>166,171</u>
Net cash provided by (used in) investing activities	<u>(150,053)</u>	<u>303,886</u>
<b>Increase in Cash</b>	282,736	1,002,410
<b>Cash, Beginning of Year</b>	<u>1,552,718</u>	<u>550,308</u>
<b>Cash, End of Year</b>	<u>\$ 1,835,454</u>	<u>\$ 1,552,718</u>



**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 1,582,445	\$ 1,454,715
Cash in noncurrent cash and investments	253,009	98,003
Total cash	\$ 1,835,454	\$ 1,552,718
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (656,551)	\$ (1,593,052)
Depreciation	861,136	859,112
Provision for uncollectible accounts	527,763	744,174
Change in operating assets and liabilities		
Patient accounts receivable	110,708	(540,875)
Estimated amounts due from third-party payers	88,204	503,613
Supplies	(13,597)	32,049
Prepaid expenses and other	(35,583)	64,762
Advances to medical students	1,860	(29,223)
Accounts payable	(202,453)	(155,797)
Accrued salaries payable	46,490	36,847
Accrued benefits payable	44,863	79,031
Other accrued liabilities	76,805	51,473
Net cash provided by operating activities	\$ 849,645	\$ 52,114
<b>Noncash Investing, Capital and Financing Activities</b>		
Capital assets acquisitions included in accounts payable	\$ 20,750	\$ -
Capital lease obligations incurred for capital assets	\$ 290,955	\$ -

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

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

***Nature of Operations and Reporting Entity***

Ellsworth County Medical Center (Medical Center) is a short-term acute care facility that is a component unit and an integral part of the overall reporting entity of Ellsworth County, Kansas. The Medical Center was organized and began operations on August 1, 1993, to provide inpatient and outpatient health care services for the benefit of the community. The Medical Center is operated by a Board of Trustees appointed by the County Commissioners of Ellsworth County, Kansas.

***Basis of Accounting and Presentation***

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center 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 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.

***Cash Equivalents***

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Noncapital Appropriations – Ellsworth County***

The Medical Center receives approximately 1% of its financial support from noncapital appropriations from Ellsworth County property tax levy. One hundred percent of these appropriations were used to support operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Ellsworth County is recognized in full in the year in which use is first permitted.

***Patient Accounts Receivable***

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

***Supplies***

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

***Noncurrent Cash and Investments and Investment Income***

Noncurrent cash and investments include designated assets set aside by the Board of Trustees for future capital improvements, education and physician recruitment, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets that are restricted by donor and grantors for operating purposes. The funds are primarily invested in certificates of deposit and money market accounts.

Investment income includes dividend and interest income.

***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 Medical Center:

Land improvements	15 years
Building	40 years
Equipment	5 – 25 years

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Capital Asset Impairment***

The Medical Center 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.

No asset impairment was recognized during the year ended June 30, 2019. The Medical Center realized an impairment gain, net of insurance recoveries of \$193,753 during the year ended June 30, 2018, which is included in nonoperating revenues (expenses) in the accompanying statements of revenue, expenses and changes in net position.

***Compensated Absences***

The Medical Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. 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. Compensated absence liabilities are computed using the regular pay 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.

***Risk Management***

The Medical Center 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; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims up to \$35,000 per individual for 2019 and 2018. Claims in excess of \$35,000 per individual for 2019 and 2018 or \$1,000,000 aggregate Medical Center claims are covered through a reinsurance policy. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Net Position***

Net position of the Medical Center is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Net Patient Service Revenue***

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center 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 Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center 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 Ellsworth County, Kansas, the Medical Center 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 Medical Center has obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 2: 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 Medical Center'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 June 30, 2019 and 2018, respectively, \$2,543,774 and \$1,612,837 of the Medical Center's bank balances of \$3,147,382 and \$2,612,837 were exposed to custodial credit risk as follows:

	<b>2019</b>	<b>2018</b>
Uninsured and collateral held by the pledging financial institution in the Medical Center's name and an irrevocable letter of credit	<u>\$ 2,543,774</u>	<u>\$ 1,612,837</u>

**Summary of Carrying Values**

The carrying values of deposits (excluding petty cash) shown above are included in the balance sheets as follows:

	<b>2019</b>	<b>2018</b>
Cash	\$ 1,581,890	\$ 1,454,160
Noncurrent cash and investments	<u>1,465,266</u>	<u>1,104,688</u>
	<u>\$ 3,047,156</u>	<u>\$ 2,558,848</u>

As of June 30, 2019 and 2018, noncurrent cash and investments are comprised of certificates of deposit with remaining maturities of less than one year.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 3: Patient Accounts Receivable**

The Medical Center 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 June 30, 2019 and 2018, consisted of:

	<b>2019</b>	<b>2018</b>
Medicare	\$ 1,558,529	\$ 2,171,821
Medicaid	55,327	79,446
Blue Cross	291,571	420,392
Other third-party payers	337,907	467,630
Patients	753,112	784,593
	<u>2,996,446</u>	<u>3,923,882</u>
Less allowance for uncollectible accounts	<u>(679,138)</u>	<u>(968,103)</u>
	<u><u>\$ 2,317,308</u></u>	<u><u>\$ 2,955,779</u></u>

**Note 4: Capital Assets**

Capital assets activity for the years ended June 30 was:

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 56,240	\$ -	\$ -	\$ -	\$ 56,240
Land improvements	370,763	-	-	-	370,763
Buildings	3,745,129	-	-	133,330	3,878,459
Fixed equipment	722,075	24,493	-	-	746,568
Moveable equipment	5,130,331	151,973	(34,656)	504,997	5,752,645
Construction in progress	329,767	478,386	-	(638,327)	169,826
	<u>10,354,305</u>	<u>654,852</u>	<u>(34,656)</u>	<u>-</u>	<u>10,974,501</u>
Less accumulated depreciation					
Land improvements	364,061	1,955	-	-	366,016
Buildings	3,048,314	104,613	-	-	3,152,927
Fixed equipment	571,264	19,844	-	-	591,108
Moveable equipment	3,810,382	734,724	(34,656)	-	4,510,450
	<u>7,794,021</u>	<u>861,136</u>	<u>(34,656)</u>	<u>-</u>	<u>8,620,501</u>
Capital Assets, Net	<u><u>\$ 2,560,284</u></u>	<u><u>\$ (206,284)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,354,000</u></u>

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 56,240	\$ -	\$ -	\$ -	\$ 56,240
Land improvements	370,763	-	-	-	370,763
Buildings	3,843,045	15,117	(113,033)	-	3,745,129
Fixed equipment	600,185	121,890	-	-	722,075
Moveable equipment	5,620,946	23,139	(605,415)	91,661	5,130,331
Construction in progress	85,300	336,128	-	(91,661)	329,767
	<u>10,576,479</u>	<u>496,274</u>	<u>(718,448)</u>	<u>-</u>	<u>10,354,305</u>
Less accumulated depreciation					
Land improvements	361,681	2,380	-	-	364,061
Buildings	3,050,792	110,555	(113,033)	-	3,048,314
Fixed equipment	550,790	20,474	-	-	571,264
Moveable equipment	3,682,144	725,703	(597,465)	-	3,810,382
	<u>7,645,407</u>	<u>859,112</u>	<u>(710,498)</u>	<u>-</u>	<u>7,794,021</u>
Capital Assets, Net	<u>\$ 2,931,072</u>	<u>\$ (362,838)</u>	<u>\$ (7,950)</u>	<u>\$ -</u>	<u>\$ 2,560,284</u>

**Note 5: Long-term Obligations**

The following is a summary of long-term obligation transactions for the Medical Center for the years ended June 30:

	<b>2019</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
Capital lease obligations	\$ 1,169,034	\$ 290,955	\$ (520,395)	\$ 939,594	\$ 494,867	\$ 444,727

  

	<b>2018</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
Note payable to bank	\$ 189,289	\$ -	\$ (189,289)	\$ -	\$ -	\$ -
Capital lease obligations	463,062	1,073,251	(367,279)	1,169,034	502,131	666,903
	<u>\$ 652,351</u>	<u>\$ 1,073,251</u>	<u>\$ (556,568)</u>	<u>\$ 1,169,034</u>	<u>\$ 502,131</u>	<u>\$ 666,903</u>



**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note Payable to Bank**

The note payable to bank was due March 15, 2020, with principal payable monthly and interest at 3.36% payable monthly. The note was secured by certificates of deposit. The note payable was paid in full during 2018.

**Capital Lease Obligations**

The Medical Center is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Property and equipment include the following property under capital leases at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Major moveable equipment	\$ 1,679,946	\$ 2,025,290
Less accumulated depreciation	(1,073,722)	(1,168,499)
	<b>\$ 606,224</b>	<b>\$ 856,791</b>

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.49% to 4.95% together with the present value of the future minimum lease payments as of June 30, 2019:

Year Ending June 30,	
2020	\$ 527,269
2021	294,152
2022	64,304
2023	64,304
2024	42,856
Total minimum lease payments	992,885
Less amount representing interest	53,291
Present value of future minimum lease payments	<b>\$ 939,594</b>

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 6: Professional Liability Claims**

The Medical Center purchases professional liability insurance 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 professional liability 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 7: Employee Health Claims**

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$35,000 per covered employee for 2019 and 2018. Claims in excess of \$35,000 per covered employee or \$1,000,000 aggregate Medical Center claims are covered through a reinsurance policy for 2019 and 2018. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 119,239	\$ 78,281
Current year claims incurred and changes in estimates for claims incurred in prior years	1,060,436	894,333
Claims and expenses paid	<u>(1,031,333)</u>	<u>(853,375)</u>
Balance, end of year	<u>\$ 148,342</u>	<u>\$ 119,239</u>

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 8: Net Patient Service Revenue**

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

*Medicare.* The Medical Center is recognized as a CAH. Under CAH rules, inpatient acute care, 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 a combination of fee schedules and cost reimbursement methodologies. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2025.

*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.

Approximately 70% and 71% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, 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 Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

**Note 9: Charity Care**

Charges excluded from revenue under the Medical Center's charity care policy were \$49,492 and \$90,326 for June 30, 2019 and 2018, respectively. The Medical Center's direct and indirect costs for services and supplies furnished under the Medical Center's charity care policy were approximately \$42,000 and \$78,000 in 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost-to-gross charges to the gross uncompensated charges from the June 30, 2019 and 2018, filed Medicare cost reports.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 10: Pension Plans**

The Medical Center has a defined contribution plan (401(a) plan) in which all employees of the Medical Center become eligible for participation upon active employment. Employees were required by the plan to contribute 6.42% of their salary to the plan in 2019 and 2018. The employer is also required by the plan to contribute 6.42% of employee salary in 2019 and 2018. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions made by plan members was \$532,007 and \$534,744 for the years ended June 30, 2019 and 2018, respectively. Contributions made by the Medical Center was \$532,007 and \$534,744 for the years ended June 30, 2019 and 2018, respectively.

In addition, the Medical Center has a 403(b) defined contribution plan in which all employees of the Medical Center become eligible for participation upon active employment. Employees are allowed to contribute any amount to this plan. The employer will match the first \$12 per pay period contributed by the employee. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions made by plan members was \$164,074 and \$167,093 for the years ended June 30, 2019 and 2018, respectively. Contributions made by the Medical Center was \$31,149 and \$31,928 for the years ended June 30, 2019 and 2018, respectively.

The Medical Center provides one additional defined contribution plan (457 plan). The plan year begins on January 1 and ends December 31. Contributions made by plan members was \$44,692 and \$52,310 for the years ended June 30, 2019 and 2018, respectively. The Medical Center does not make contributions to the 457 plan.

**Note 11: 340B Drug Pricing Program**

The Medical Center participates in the 340B Drug Pricing Program (340B Program) enabling the Medical Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Medical Center recorded revenues of \$2,208,153 and \$1,707,398 for the years ending June 30, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Medical Center recorded expenses of \$1,196,835 and \$1,133,593 for the years ending June 30, 2019 and 2018, 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.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 12: Contingencies**

***General Litigation***

The Medical Center is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by commercial insurance. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net assets and cash flows of the Medical Center. Events could occur that would change this estimate materially in the near term.

**Note 13: Future Changes in Accounting Principles**

***Leases***

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. 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 Medical Center is evaluating the impact the statement will have on the financial statements.

**Ellsworth County Medical Center**  
**A Component Unit of Ellsworth County, Kansas**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

***Fiduciary Activities***

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2018. The Medical Center is evaluating the impact the statement will have on the financial statements.