

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Financial Statements

Years Ended December 31, 2018 and 2017

(Together With Independent Auditor's Report)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Index

Years Ended December 31, 2018 and 2017

	<u>Page Number</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-21

## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees  
Osborne County Memorial Hospital  
Osborne, Kansas:

### **Report on the Financial Statements**

We have audited the accompanying statements of financial position of Osborne County Memorial Hospital, a component unit of Osborne County, Kansas, as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise Osborne County Memorial Hospital's basic 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 the 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 Osborne County Memorial 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 conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter Regarding Component Unit Reporting***

As discussed in note 1, the financial statements present only the financial information of Osborne County Memorial Hospital and do not purport to, and do not, present fairly the financial position of Osborne County as of December 31, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Osborne County Memorial Hospital has omitted its 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 the 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.

*Dohman, Akeelund & Eddy, LLC*

Aurora, Nebraska  
June 24, 2019

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Financial Position

December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 904,706	75,885
Patient accounts receivable, net of contractual adjustments and estimated uncollectibles of \$548,217 in 2018 and \$597,796 in 2017	979,427	994,744
Outside service receivables	77,550	151,013
Taxes receivable	101,579	86,755
Supplies inventory	139,479	192,580
Prepaid expenses	31,183	33,621
Estimated third-party payor settlements	<u>4,875</u>	<u>74,660</u>
Total current assets	<u>2,238,799</u>	<u>1,609,258</u>
Assets whose use is limited or restricted:		
Restricted by donors or grantors	146,027	333,686
Designated by Board of Trustees for capital acquisitions	-	437,644
Interest in assets at Greater Salina Community Foundation	<u>10,739</u>	<u>11,541</u>
Total assets whose use is limited or restricted	<u>156,766</u>	<u>782,871</u>
Capital assets	4,481,029	4,314,403
Less accumulated depreciation	<u>3,753,795</u>	<u>3,646,051</u>
Net capital assets	<u>727,234</u>	<u>668,352</u>
	<u>\$ 3,122,799</u>	<u>3,060,481</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current maturities of capital lease obligation	\$ 2,592	2,409
Accounts payable and payroll withholding	85,892	582,234
Accrued expenses - salaries, wages and benefits	432,493	465,886
Estimated third-party payor settlements	<u>514,976</u>	<u>104,976</u>
Total current liabilities	1,035,953	1,155,505
Capital lease obligation, excluding current maturities	<u>5,974</u>	<u>8,550</u>
Total liabilities	<u>1,041,927</u>	<u>1,164,055</u>
Net position:		
Net investment in capital assets	718,668	657,393
Restricted - expendable for capital assets	146,027	330,868
Restricted - specific operating activities	-	2,818
Unrestricted	<u>1,216,177</u>	<u>905,347</u>
Total net position	2,080,872	1,896,426
	<u><u>\$ 3,122,799</u></u>	<u><u>3,060,481</u></u>

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue	\$ 4,976,779	4,967,639
Provision for uncollectible accounts	<u>(160,433)</u>	<u>(297,733)</u>
Net patient service revenue, less provision for uncollectible accounts	4,816,346	4,669,906
Other operating revenue	<u>243,555</u>	<u>267,577</u>
Total operating revenues	<u>5,059,901</u>	<u>4,937,483</u>
Operating expenses:		
Salaries and wages	2,703,614	2,735,971
Employee benefits	545,333	588,655
Supplies and other	2,324,754	2,538,106
Depreciation	<u>147,695</u>	<u>142,962</u>
Total operating expenses	<u>5,721,396</u>	<u>6,005,694</u>
Operating loss	<u>(661,495)</u>	<u>(1,068,211)</u>
Nonoperating revenues and expenses:		
Noncapital appropriations - Osborne County	841,006	818,448
Investment income	4,342	7,709
Interest expense	(13,529)	(11,207)
Noncapital grants and contributions	<u>12,287</u>	<u>202,237</u>
Total nonoperating revenues and expenses	<u>844,106</u>	<u>1,017,187</u>
Revenues in excess of expenses (expenses in excess of revenues)	182,611	(51,024)
Capital grants and contributions	<u>1,835</u>	<u>99,188</u>
Increase in net position	184,446	48,164
Net position, beginning of year	<u>1,896,426</u>	<u>1,848,262</u>
Net position, end of year	<u><u>\$ 2,080,872</u></u>	<u><u>1,896,426</u></u>

See accompanying notes to financial statements.

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

<u>Increase or Decrease in Cash</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received:		
Patients and third-party payors	\$ 5,311,448	4,649,972
Other receipts, net	243,555	267,577
Cash paid to employees	(3,282,340)	(3,324,996)
Cash paid to suppliers and contractors	<u>(2,652,902)</u>	<u>(2,746,877)</u>
Net cash used by operating activities	<u>(380,239)</u>	<u>(1,154,324)</u>
Cash flows from noncapital financing activities:		
Noncapital appropriations - Osborne County	826,182	819,675
Noncapital grants and contributions received	12,287	202,237
Interest payments on trade payables	<u>(12,809)</u>	<u>(10,171)</u>
Net cash provided by noncapital financing activities	<u>825,660</u>	<u>1,011,741</u>
Cash flows from capital and related financing activities:		
Capital grants and gifts	1,835	99,188
Capital expenditures	(245,769)	(110,792)
Principal payments on capital lease obligation	(2,393)	(2,402)
Interest paid on capital lease obligation	<u>(720)</u>	<u>(1,036)</u>
Net cash used by capital and related financing activities	<u>(247,047)</u>	<u>(15,042)</u>
Cash flows from investing activities, investment income received		
activities, investment income received	<u>5,144</u>	<u>6,343</u>
Net increase (decrease) in cash and cash equivalents	203,518	(151,282)
Cash, beginning of year	<u>847,215</u>	<u>998,497</u>
Cash, end of year	<u>\$ 1,050,733</u>	<u>847,215</u>
Reconciliation of cash to the statements of financial position:		
Cash	\$ 904,706	75,885
Cash in noncurrent assets	<u>146,027</u>	<u>771,330</u>
Total cash	<u>\$ 1,050,733</u>	<u>847,215</u>

(Continued)



OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Statements of Cash Flows  
(Continued)  
Years Ended December 31, 2018 and 2017

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2018</u>	<u>2017</u>
Operating loss	\$ (661,495)	(1,068,211)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	147,695	142,962
Provision for uncollectible accounts	160,433	297,733
Decrease (increase) in:		
Patient accounts receivable	(145,116)	(234,357)
Outside service receivables	73,463	(40,127)
Supplies inventories	53,101	37,126
Prepaid expenses	2,438	2,260
Estimated third-party payor settlements	479,785	(83,310)
Increase (decrease) in:		
Accounts payable and payroll withholding	(457,150)	(208,030)
Accrued expenses - salaries, wages and benefits	<u>(33,393)</u>	<u>(370)</u>
Net cash used by operating activities	<u>\$ (380,239)</u>	<u>(1,154,324)</u>

Supplemental Disclosure of Cash Flows Information

Capital asset additions included in accounts payable	\$ <u>          -</u>	<u>          39,192</u>
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See accompanying notes to financial statements.

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

December 31, 2018 and 2017

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Osborne County Memorial Hospital (the Hospital) is located in Osborne, Kansas. The Hospital is a component unit of Osborne County, Kansas (the County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Osborne 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 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.

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state 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.

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.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

Cash and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for doubtful accounts for uninsured/self-pay patients fell from approximately \$397,000 at December 31, 2017 to \$350,000 at December 31, 2018, as self-pay and insurance accounts receivable balances at December 31, 2018 were \$111,000 less than at December 31, 2017.

Supplies inventory

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

Assets whose use is limited or restricted:

Assets whose use is limited or restricted include (1) assets restricted by donors for capital acquisitions and specific operating activities, (2) assets set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, and (3) interest in assets at Greater Salina Community Foundation (note 5). Assets whose use is limited or restricted consist primarily of money market accounts.

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OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

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:

	<u>Life in Years</u>
Land improvements	10-25
Buildings	20-40
Fixed equipment	5-20
Moveable equipment	<u>5-20</u>

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. 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.

Net position

Net position of the Hospital is classified in three components. *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. The *restricted expendable* component consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The *unrestricted* net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

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 rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors 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. The Hospital estimates the cost associated with providing services under its charity care policy were \$3,939 and \$752 for the years ended December 31, 2018 and 2017, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs plus interest expense divided by gross operating revenue) to the gross charges forgone under its charity care policy.

Noncapital appropriations - Osborne County

The Hospital received approximately 14% of its financial support in both 2018 and 2017 from noncapital appropriations from the County's property tax levy and 1% sales tax revenue.

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

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted net position balances.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

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 (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria has 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 is 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.

The Hospital recorded revenue under the Medicaid EHR program of \$32,620 which is included in net patient service revenue in the statements of revenues, expenses and changes in net position as of the year ended December 31, 2017. No EHR program payments were earned or received for the year ended December 31, 2018.

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 medical malpractice and employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(2) 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 rates. These payment arrangements include:

- **Medicare:** The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care and skilled swing-bed and most outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of actual cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules. 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 audit thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2017.

The "Budget Control Act of 2011" requires, among other things, mandatory across the board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments.

- **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. That add-on percentage may be rebased at some time in the future.

Approximately 66% and 69% of net patient service revenue 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 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.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Net patient service revenue:		
Gross patient service revenue:		
Medicare	\$ 3,789,343	3,440,449
Medicaid	355,589	336,694
Commercial insurance and other	1,918,428	1,849,913
Uninsured/self-pay	162,726	204,950
Charity care deductions	<u>(4,444)</u>	<u>(762)</u>
Gross patient service revenue (after charity care)	<u>6,221,642</u>	<u>5,831,244</u>
Contractual adjustments:		
Medicare	(656,891)	(289,817)
Medicaid	(197,175)	(68,130)
Commercial insurance and other	<u>(390,797)</u>	<u>(505,658)</u>
Total contractual adjustments	<u>(1,244,863)</u>	<u>(863,605)</u>
Net patient revenue	4,976,779	4,967,639
Provision for bad debts	<u>(160,433)</u>	<u>(297,733)</u>
Net patient service revenue, less provision for bad debts	<u>\$ 4,816,346</u>	<u>4,669,906</u>

(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.

(Continued)



OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

At December 31, 2018 and 2017, \$624,607 and \$319,290 of the Hospital's bank balances of \$1,141,212 and \$863,735, respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	\$ 18,009	-
Uninsured and collateral held by securities held by pledging financial institution's trust department or agent in the Hospital's name	<u>606,598</u>	<u>319,290</u>
	<u>\$ 624,607</u>	<u>319,290</u>

The carrying amounts of deposits shown above are included in the balance sheet as follows:

	<u>2018</u>	<u>2017</u>
Carrying value, deposits	\$ <u>1,050,733</u>	<u>847,215</u>
Included in the following balance sheet captions:		
Cash in current assets	\$ 904,706	75,885
Designated by Board of Trustees for capital acquisitions	-	437,644
Restricted by donors	<u>146,027</u>	<u>333,686</u>
	<u>\$ 1,050,733</u>	<u>847,215</u>

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(4) Patient Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and insured under third-party payor agreements.

Patient accounts receivable at December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Receivable from:		
Medicare	\$ 671,882	652,227
Medicaid	91,247	64,935
Self-pay	304,083	275,330
Blue Cross	255,505	337,182
Other third-party payers	<u>204,927</u>	<u>262,866</u>
Total patient accounts receivable	<u>1,527,644</u>	<u>1,592,540</u>
Allowances for:		
Contractual adjustments	198,217	200,773
Uncollectible accounts	<u>350,000</u>	<u>397,023</u>
Total allowances	<u>548,217</u>	<u>597,796</u>
Net patient accounts receivable	\$ <u>979,427</u>	<u>994,744</u>

(5) Interest in Assets at Greater Salina Community Foundation

The Hospital entered into an Organization Fund Agreement in 2012 with the Greater Salina Community Foundation (the Foundation). Changes in the beneficial interest in those assets are included in nonoperating revenue as investment income. For the year ended December 31, 2018, the account experienced a net decrease of \$802 and for the year ended December 31, 2017, the account experienced a gain of \$1,366.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(6) Capital Assets

Capital asset activity for the years ended December 31 was:

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land improvements	\$ 77,937	-	-	77,937
Buildings	1,296,911	-	-	1,296,911
Fixed equipment	573,241	-	-	573,241
Moveable equipment	2,266,817	122,111	(39,951)	2,348,977
Construction in progress - not depreciated	<u>99,497</u>	<u>84,466</u>	<u>-</u>	<u>183,963</u>
Total historical costs	<u>4,314,403</u>	<u>206,577</u>	<u>(39,951)</u>	<u>4,481,029</u>
<u>Less accumulated depreciation</u>				
Land improvements	(77,937)	-	-	(77,937)
Buildings	(1,051,925)	(32,974)	-	(1,084,899)
Fixed equipment	(493,687)	(23,992)	-	(517,679)
Moveable equipment	<u>(2,022,502)</u>	<u>(90,729)</u>	<u>39,951</u>	<u>(2,073,280)</u>
Total accumulated depreciation	<u>(3,646,051)</u>	<u>(147,695)</u>	<u>39,951</u>	<u>(3,753,795)</u>
Net capital assets	\$ <u>668,352</u>	<u>58,882</u>	<u>-</u>	<u>727,234</u>

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

	<u>2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2017</u>
<u>Historical costs</u>				
Land improvements	\$ 77,937	-	-	77,937
Buildings	1,296,911	-	-	1,296,911
Fixed equipment	573,241	-	-	573,241
Moveable equipment	2,225,661	50,487	(9,331)	2,266,817
Construction in progress - not depreciated	<u>-</u>	<u>99,497</u>	<u>-</u>	<u>99,497</u>
Total historical costs	<u>4,173,750</u>	<u>149,984</u>	<u>(9,331)</u>	<u>4,314,403</u>
<u>Less accumulated depreciation</u>				
Land improvements	(77,937)	-	-	(77,937)
Buildings	(1,018,293)	(33,632)	-	(1,051,925)
Fixed equipment	(468,007)	(25,680)	-	(493,687)
Moveable equipment	(1,948,183)	(83,650)	9,331	(2,022,502)
Total accumulated depreciation	<u>(3,512,420)</u>	<u>(142,962)</u>	<u>9,331</u>	<u>(3,646,051)</u>
Net capital assets	<u>\$ 661,330</u>	<u>7,022</u>	<u>-</u>	<u>668,352</u>

Construction in progress at December 31, 2018 consists of architect and related initial costs associated with the construction of a new hospital and physician clinic building (the Replacement Facility) to replace the existing hospital building. During 2018, the Hospital made a down-payment of half the cost of a \$124,850 therapy pool to be installed in the Replacement Facility. The total cost of the Replacement Facility project is estimated to be approximately \$18,735,000. See additional disclosures regarding the funding of the Replacement Facility in note 14.

(7) Capital Lease Obligation

Capital lease obligation activity for the years ended December 31 was:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Capital lease payable	\$ 10,959	<u>-</u>	<u>(2,393)</u>	8,566	<u>2,592</u>
Less current installments	<u>2,409</u>			<u>2,592</u>	
Capital lease obligations, excluding current installments	<u>\$ 8,550</u>			<u>5,974</u>	

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Current Portion</u>
Capital lease payable	\$ 13,361	-	(2,402)	10,959	<u>2,409</u>
Less current installments	<u>2,210</u>			<u>2,409</u>	
Capital lease obligations, excluding current installments	<u>\$ 11,151</u>			<u>8,550</u>	

The terms and due date of the Hospital's capital lease obligation at December 31, 2018 is as follows:

- Capital lease obligation, due in monthly installments of \$264, including interest at an implicit rate of 8%; secured by a firewall lease asset having an original cost basis of \$21,796 and \$6,357 net book value at December 31, 2018.

Scheduled lease obligation repayments are shown below:

<u>Year Ending December 31,</u>	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Imputed Interest</u>
2019	\$ 2,592	582
2020	2,807	366
2021	<u>3,167</u>	<u>133</u>
Total	<u>\$ 8,566</u>	<u>1,081</u>

(8) Medical Malpractice and Liability Coverage and Claims

The Hospital carries a professional liability policy (including malpractice) which provides \$200,000 of coverage per occurrence and \$600,000 aggregate coverage. 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. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(9) Pension Plan

The Hospital maintains a 401(a) money purchase pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older who have completed one year of service and have been paid for 1,000 hours of service for the year. For any plan year in which the employee makes an elective deferral equal to 1% of annual compensation, the Hospital will make a contribution of 2% (1% prior to June 2018) of annual compensation. 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 estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. For all employees who terminated from the Hospital prior to April 1, 2009, benefits vested after two years of service with full vesting after six years of service. All employees who contribute at least one hour of service on or after April 1, 2009, vest after one year of service with full vesting after four years of service. Contributions actually made by plan members totaled \$85,648 and \$60,096 in 2018 and 2017, respectively. Hospital contributions totaled \$34,421 and \$17,694 in 2018 and 2017, respectively.

(10) Management/Services Agreement

The Board of Trustees of the Hospital has contracted with Great Plains Health Alliance (GPHA) for various services, including management and data processing services. On July 1, 2017, the Hospital provided its 90-day contract cancellation notice. The Hospital is continuing to contract with GPHA for various software. Fees incurred for the various services provided by GPHA to the Hospital totaled \$346,362 and \$450,223 in 2018 and 2017, respectively. Amounts included in accounts payable related to these services totaled \$9,881 and \$394,914 at December 31, 2018 and 2017, respectively.

(11) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2015 enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$185,338 and \$217,215 for the years ended December 31, 2018 and 2017, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of \$161,702 and \$169,379 for the years ended December 31, 2018 and 2017, respectively, which is included in supplies and other in the accompanying statements of revenues, 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 changes to financial statement amounts related to the 340B Program could occur in the near term.

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(12) Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3 - Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

The Hospital has the following recurring fair value measurements:

- Equity securities of \$8,054 and \$8,771 are valued using quoted market prices (Level 1 inputs) at December 31, 2018 and 2017, respectively.
- Bonds of \$2,685 and \$2,770 are valued using a matrix pricing model (Level 2 inputs) at December 31, 2018 and 2017, respectively.

The above amounts are all included under the caption "Interest in assets at Greater Salina Community Foundation" in the statements of net position.

(13) Great Plains 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 was a member organization in the Trust and substantially all of the Hospital's employees and their dependents were eligible to participate in the Plan. Effective July 1, 2017, the Hospital terminated its participation in the VEBA and switched to a private carrier to provide its employees with welfare benefits (primarily health insurance coverage).

(Continued)

OSBORNE COUNTY MEMORIAL HOSPITAL  
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

(14) Replacement Facility

During 2017, the Hospital filed an application and was approved by the United States Department of Agriculture (USDA) for a USDA direct loan of up to \$18,735,000 to fund the construction of the Replacement Facility. Additionally, the voters of the County approved a tax levy (general obligation of the County) to support and fund the repayment of the USDA direct loan. Although the tax levy was approved in an amount to cover the entire potential annual principal and interest payments required to service the USDA direct loan, the Hospital anticipates using a combination of funds generated from its on-going operations, existing annual tax levy amounts and the newly approved tax levy to fund the repayments of the USDA direct loan.

The \$18,735,000 USDA direct loan is anticipated to carry a fixed interest rate of 3.75% and a 30-year amortization period. Since the underlying USDA direct loan amounts will be issued as general obligation bonds of the County, the actual debt will be recorded as an obligation of the County and not the Hospital. Once the project is complete and ready to be placed in-service, the Hospital anticipates recording a transfer from the County for the final full amount of the cost to construct the building and equipment and will start to depreciate accordingly.