

**Board of Trustees of Kiowa County Memorial Hospital  
A Component Unit of Kiowa County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Trustees  
Kiowa County Memorial Hospital  
Greensburg, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees), a component unit of Kiowa County, Kansas, and its discretely presented component unit, Great Plains of Kiowa County, Inc. (Hospital), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Board of Trustees' 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 opinions 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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board of Trustees and of its discretely presented component unit, the Hospital, as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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  
June 20, 2019

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**

**Balance Sheets**

**December 31, 2018 and 2017**

**Assets**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>				
Cash	\$ 723,983	\$ 982,187	\$ 647,573	\$ 1,163,654
Cash held for debt service	-	-	122	448
Short-term certificates of deposit	1,623,722	1,356,578	-	-
Patient accounts receivable, net of allowance; 2018 – \$139,955, 2017 – \$134,445	-	-	693,375	974,843
Intergovernmental receivable	965,175	965,175	-	-
Estimated amounts due from third-party payers	-	-	520,000	-
Supplies	-	-	200,604	191,605
Prepaid expenses and other	575	367	164,884	111,444
Total current assets	<u>3,313,455</u>	<u>3,304,307</u>	<u>2,226,558</u>	<u>2,441,994</u>
<b>Noncurrent Cash and Investments</b>				
Funds held by County for debt service	-	-	115,630	115,630
<b>Capital Assets, Net</b>				
	-	-	10,821,627	12,234,881
<b>Other Assets</b>				
Other noncurrent assets	-	-	1,927	2,034
Total assets	<u>\$ 3,313,455</u>	<u>\$ 3,304,307</u>	<u>\$ 13,165,742</u>	<u>\$ 14,794,539</u>

## Liabilities, Deferred Inflows of Resources and Net Position

	Board of Trustees		Hospital	
	2018	2017	2018	2017
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ -	\$ -	\$ 37,893	\$ 36,315
Accounts payable	-	-	145,762	141,947
Accrued expenses	-	-	568,659	574,578
Estimated amounts due to third-party payers	-	-	-	148,774
Total current liabilities	-	-	752,314	901,614
<b>Long-term Debt</b>	-	-	1,573,435	1,623,669
Total liabilities	-	-	2,325,749	2,525,283
<b>Deferred Inflows of Resources</b>				
Intergovernmental property taxes	965,175	965,175	-	-
<b>Net Position</b>				
Net investment in capital assets	-	-	9,210,299	10,574,897
Restricted - expendable for				
Debt service	-	-	115,752	116,078
Unrestricted	2,348,280	2,339,132	1,513,942	1,578,281
Total net position	2,348,280	2,339,132	10,839,993	12,269,256
Total liabilities, deferred inflows of resources and net position	\$ 3,313,455	\$ 3,304,307	\$ 13,165,742	\$ 14,794,539

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$134,051, 2017 – \$189,137	\$ -	\$ -	\$ 5,782,530	\$ 5,965,940
Property taxes to support operations	980,964	961,483	141,463	137,867
Other	-	-	754,199	651,554
Total operating revenues	<u>980,964</u>	<u>961,483</u>	<u>6,678,192</u>	<u>6,755,361</u>
<b>Operating Expenses</b>				
Salaries and wages	-	-	3,446,689	3,448,091
Supplies and other	13,947	6,063	4,079,835	4,028,876
Depreciation and amortization	-	-	1,354,333	1,448,459
Total operating expenses	<u>13,947</u>	<u>6,063</u>	<u>8,880,857</u>	<u>8,925,426</u>
<b>Operating Income (Loss)</b>	<u>967,017</u>	<u>955,420</u>	<u>(2,202,665)</u>	<u>(2,170,065)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	21,800	11,120	1,098	1,329
Interest expense	-	-	(66,823)	(66,027)
Noncapital grants and gifts	1,105	-	28,377	8,080
Other	-	-	(170,024)	197,975
Noncapital contributions between Board of Trustees and Hospital	<u>(980,774)</u>	<u>(750,000)</u>	<u>980,774</u>	<u>750,000</u>
Total nonoperating revenues (expenses)	<u>(957,869)</u>	<u>(738,880)</u>	<u>773,402</u>	<u>891,357</u>
<b>Increase (Decrease) in Net Position</b>	9,148	216,540	(1,429,263)	(1,278,708)
<b>Net Position, Beginning of Year</b>	<u>2,339,132</u>	<u>2,122,592</u>	<u>12,269,256</u>	<u>13,547,964</u>
<b>Net Position, End of Year</b>	<u>\$ 2,348,280</u>	<u>\$ 2,339,132</u>	<u>\$ 10,839,993</u>	<u>\$ 12,269,256</u>

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>				
Receipts from and on behalf of patients	\$ -	\$ -	\$ 5,395,224	\$ 6,202,279
Payments to suppliers and contractors	(13,947)	(6,063)	(4,138,352)	(4,102,064)
Payments to and on behalf of employees	-	-	(3,452,608)	(3,435,260)
Cash received from County	980,964	961,483	141,463	137,867
Other receipts, net	-	-	754,199	651,554
Net cash provided by (used in) operating activities	<u>967,017</u>	<u>955,420</u>	<u>(1,300,074)</u>	<u>(545,624)</u>
<b>Noncapital Financing Activities</b>				
Noncapital grants and gifts	1,105	-	28,377	8,080
Noncapital contributions between Board of Trustees and Hospital	<u>(980,774)</u>	<u>(750,000)</u>	<u>980,774</u>	<u>750,000</u>
Net cash provided by (used in) noncapital financing activities	<u>(979,669)</u>	<u>(750,000)</u>	<u>1,009,151</u>	<u>758,080</u>
<b>Capital and Related Financing Activities</b>				
Principal paid on long-term debt	-	-	(48,656)	(47,316)
Interest paid on long-term debt	-	-	(66,823)	(68,806)
Purchase of capital assets	-	-	(111,103)	(595,441)
Proceeds on disposal of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>639,940</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(226,582)</u>	<u>(71,623)</u>
<b>Investing Activities</b>				
Interest income received	21,592	11,104	1,098	1,329
Net increase in certificates of deposit	<u>(267,144)</u>	<u>(706,526)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(245,552)</u>	<u>(695,422)</u>	<u>1,098</u>	<u>1,329</u>
<b>Increase (Decrease) in Cash</b>	<u>(258,204)</u>	<u>(490,002)</u>	<u>(516,407)</u>	<u>142,162</u>
<b>Cash, Beginning of Year</b>	<u>982,187</u>	<u>1,472,189</u>	<u>1,279,732</u>	<u>1,137,570</u>
<b>Cash, End of Year</b>	<u><u>\$ 723,983</u></u>	<u><u>\$ 982,187</u></u>	<u><u>\$ 763,325</u></u>	<u><u>\$ 1,279,732</u></u>



**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	Board of Trustees		Hospital	
	2018	2017	2018	2017
<b>Reconciliation of Cash to the Balance Sheets</b>				
Cash	\$ 723,983	\$ 982,187	\$ 647,573	\$ 1,163,654
Cash held for debt service	-	-	115,752	116,078
Total cash	<u>\$ 723,983</u>	<u>\$ 982,187</u>	<u>\$ 763,325</u>	<u>\$ 1,279,732</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating income (loss)	\$ 967,017	\$ 955,420	\$ (2,202,665)	\$ (2,170,065)
Depreciation and amortization	-	-	1,354,333	1,448,459
Other	-	-	107	110
Changes in operating assets and liabilities				
Patient accounts receivable, net	-	-	281,468	(296,031)
Estimated amounts due from and to third-party payers	-	-	(668,774)	532,370
Accounts payable and accrued expenses	-	-	(2,104)	40,558
Supplies and prepaid expenses and other	-	-	(62,439)	(101,025)
Net cash provided by (used in) operating activities	<u>\$ 967,017</u>	<u>\$ 955,420</u>	<u>\$ (1,300,074)</u>	<u>\$ (545,624)</u>

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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

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

The Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) is a component unit of Kiowa County, Kansas (County) and was organized by the Kiowa County Commissioners to operate Kiowa County Memorial Hospital (KCMH) and to control the use of tax appropriations. The Board of Trustees is elected by the voters of the County.

The Board of Trustees leases KCMH to Great Plains of Kiowa County, Inc. (Hospital or GPKC) under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. Seq. (*Note 10*). The Hospital is located in Greensburg, Kansas, and provides acute, swing-bed and physician clinic services. The Hospital is licensed as a critical access hospital (CAH) and is managed by Great Plains Health Alliance, Inc. (GPHA) (*Note 10*). During January 2010, the County issued Hospital Revenue Bonds Series 2010-A. The bond obligations are payable from and secured by the revenues of the Hospital (*Note 7*). As the Board of Trustees can access the resources of the Hospital to pay the bond obligations, the Hospital is considered a component unit of the Board of Trustees and thus included in the financial statements of the Board of Trustees using discrete presentation. Prior to 2009, the Hospital and the Board of Trustees issued separate financial statements.

***Basis of Accounting and Presentation***

The financial statements of the Board of Trustees and 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 of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated 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. Interest income, interest on capital assets-related debt and noncapital grants and gifts are included in nonoperating revenues and expenses. The Board of Trustees and Hospital first apply restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows 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.

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Cash Equivalents***

The Board of Trustees and Hospital consider all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

***Property Taxes and Noncapital Contributions – Kiowa County***

The Board of Trustees and Hospital received approximately 15% and 14% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2018 and 2017, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

***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; workers' compensation; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

**Board of Trustees of Kiowa County Memorial Hospital**  
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**Notes to Financial Statements**  
**December 31, 2018 and 2017**

For receivables associated with 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 uncollectible accounts 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. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts estimated at December 31, 2018, is based on 100% of all payer class account balances other than Medicare greater than 120 days outstanding from the date of discharge or service.

***Supplies***

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

***Capital Assets***

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

Land improvements	5 – 20 years
Buildings	5 – 30 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations.

***Compensated Absences***

Hospital 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. 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 rates in effect at the balance sheet date.

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Net Position***

Net position is classified into three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings and related accounts used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors, including amounts as required by bond indentures. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Board of Trustees' net position are unrestricted, but by nature, are to be used solely for the benefit of the Hospital. The funds are used by the Hospital for capital purchases and for operations as approved by action of the Board of Trustees.

***Net Patient Service Revenue***

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

***Charity Care***

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

***Income Taxes***

As an essential government function of the County, the Board of Trustees is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction.

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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 have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital’s Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to three 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.

**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 Board of Trustees’ deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At December 31, 2018 and 2017, respectively, \$1,799,803 and \$1,993,395 of the Board of Trustees’ bank balances of \$2,346,875 and \$2,539,314 were exposed to custodial credit risk as follows:

	<b>2018</b>	<b>2017</b>
Uninsured and uncollateralized	\$ -	\$ 20,976
Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the Board of Trustees’ name	1,799,803	1,972,419
	\$ 1,799,803	\$ 1,993,395

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Summary of Carrying Values**

The carrying values of deposits shown above are included in the balance sheets at December 31, 2018 and 2017, as follows:

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 2,347,705	\$ 2,338,765
Included in the following balance sheet captions		
Cash	\$ 723,983	\$ 982,187
Short-term certificates of deposit	1,623,722	1,356,578
	<u>\$ 2,347,705</u>	<u>\$ 2,338,765</u>

**Note 3: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 433,160	\$ 768,709
Medicaid	28,361	-
Blue Cross	55,243	47,739
Other third-party payers	112,426	90,213
Self-pay	204,140	202,627
	<u>833,330</u>	<u>1,109,288</u>
Less allowance for uncollectible accounts	139,955	134,445
Patient accounts receivable, net	<u>\$ 693,375</u>	<u>\$ 974,843</u>

The mix of net receivables from patients and third-party payers at December 31, 2018 and 2017, is:

	<u>2018</u>	<u>2017</u>
Medicare	63%	79%
Medicaid	4%	0%
Other third-party payers	20%	10%
Self-pay	13%	11%
	<u>100%</u>	<u>100%</u>

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 4: Net Patient Service Revenue**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

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

*Medicare.* The Hospital is recognized as a 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 Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The clinics are recognized as rural health clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement are determined in a similar manner as for hospital services. 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. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

Approximately 84% and 87% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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



**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

The Hospital's net patient service revenue is computed as follows for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Medicare	\$ 4,547,545	\$ 4,622,671
Medicaid	300,273	487,846
Blue Cross	548,895	495,211
Other third-party payers	388,976	418,440
Self-pay	130,892	130,909
	<u>5,916,581</u>	<u>6,155,077</u>
Less provision for uncollectible accounts	<u>(134,051)</u>	<u>(189,137)</u>
Net patient service revenue	<u>\$ 5,782,530</u>	<u>\$ 5,965,940</u>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2018 and 2017, was:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,581,436	61,062	-	-	20,642,498
Fixed equipment	1,140,001	-	(283,373)	28,419	885,047
Major moveable equipment	2,817,826	41,622	-	30,828	2,890,276
Construction in progress	50,828	8,419	-	(59,247)	-
	<u>24,717,831</u>	<u>111,103</u>	<u>(283,373)</u>	<u>-</u>	<u>24,545,561</u>
Less accumulated depreciation					
Buildings and improvements	9,236,892	1,189,952	-	-	10,426,844
Fixed equipment	712,863	57,554	(113,349)	-	657,068
Major moveable equipment	2,533,195	106,827	-	-	2,640,022
	<u>12,482,950</u>	<u>1,354,333</u>	<u>(113,349)</u>	<u>-</u>	<u>13,723,934</u>
Capital Assets, Net	<u>\$ 12,234,881</u>	<u>\$ (1,243,230)</u>	<u>\$ (170,024)</u>	<u>\$ -</u>	<u>\$ 10,821,627</u>

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	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,743,560	519,950	(682,074)	-	20,581,436
Fixed equipment	1,532,661	11,661	(404,321)	-	1,140,001
Major moveable equipment	2,899,941	13,002	(95,117)	-	2,817,826
Construction in progress	4,290	50,828	(4,290)	-	50,828
	25,308,192	595,441	(1,185,802)	-	24,717,831
Less accumulated depreciation					
Buildings and improvements	8,536,697	1,223,118	(522,923)	-	9,236,892
Fixed equipment	767,245	77,022	(131,404)	-	712,863
Major moveable equipment	2,474,386	148,319	(89,510)	-	2,533,195
	11,778,328	1,448,459	(743,837)	-	12,482,950
Capital Assets, Net	\$ 13,529,864	\$ (853,018)	\$ (441,965)	\$ -	\$ 12,234,881

The Hospital received insurance proceeds from storm damage to buildings and improvements and fixed equipment during 2017. Some of the insurance proceeds were used to repair damage to buildings and improvements, the fixed equipment was not replaced or repaired. The result was a net gain of \$197,975 which was included in other nonoperating revenues on the Statements of Revenues, Expenses and Changes in Net Position.

**Note 6: Medical Malpractice Coverage and Claims**

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

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

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**Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2018 and 2017:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds payable	\$ 1,646,745	\$ -	\$ 45,731	\$ 1,601,014	\$ 34,725
Capital lease obligations	13,239	-	2,925	10,314	3,168
Total long-term debt	<u>\$ 1,659,984</u>	<u>\$ -</u>	<u>\$ 48,656</u>	<u>\$ 1,611,328</u>	<u>\$ 37,893</u>
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds payable	\$ 1,690,717	\$ -	\$ 43,972	\$ 1,646,745	\$ 33,390
Capital lease obligations	16,583	-	3,344	13,239	2,925
Total long-term debt	<u>\$ 1,707,300</u>	<u>\$ -</u>	<u>\$ 47,316</u>	<u>\$ 1,659,984</u>	<u>\$ 36,315</u>

**Revenue Bonds Payable**

In 2010, the County entered into an agreement with the United States Department of Agriculture (USDA) to issue bonds to assist with the financing of the new hospital construction. The bonds bear interest at 4%, are due semi-annually in increasing principal amounts with final bonds maturing January 2049. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the Kansas State Treasurer, acting as the paying agent. The financed assets and related bond indebtedness have been included in the accompanying financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital. During 2016, the Hospital made an early principal payment of \$250,000 to reduce the annual interest payments. The final bonds will now mature in January 2046.

Bonds may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants, including financial, to be met. The financial covenants include a rate covenant that requires a debt service coverage ratio of 1.0 to be met and through 2011, monthly deposits to be made to separate accounts for debt service payments and to fund a debt service reserve. During 2018 and 2017, the Hospital met the debt service coverage ratio of 1.0.

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The debt service requirements for the revenue bonds payable as of December 31, 2018, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 98,766	\$ 34,725	\$ 64,041
2020	98,557	35,905	62,652
2021	98,766	37,551	61,215
2022	98,766	39,053	59,713
2023	98,766	40,615	58,151
2024-2028	493,464	228,383	265,081
2029-2033	493,679	278,105	215,574
2034-2038	493,706	338,380	155,326
2039-2043	493,738	411,721	82,017
2044-2045	165,404	156,576	8,828
	<u>\$ 2,633,612</u>	<u>\$ 1,601,014</u>	<u>\$ 1,032,598</u>

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2018 and 2017, totaled \$7,770 and \$10,434, respectively, net of accumulated depreciation of \$18,869 and \$16,205, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 8.00% together with the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,	
2019	\$ 3,878
2020	3,878
2021	3,878
Total minimum lease payments	<u>11,634</u>
Less amount representing interest	<u>1,320</u>
Present value of future minimum lease payments	<u>\$ 10,314</u>

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**Note 8: Pension Plan**

Hospital employees are eligible to participate in the GPHA defined contribution pension and tax deferred annuity plans. All employees, to be eligible for employer contributions, must have completed one year of service, with a minimum of 1,000 paid hours of service and must be at least 18 years of age. Employee contributions are mandatory beginning with the first day of service if 18 years of age or older. Benefits are funded by an annuity contract with an insurance company. Employer contributions are computed at a rate of 5% of annual compensation plus 10% of the excess over \$16,000. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5.0% of the excess over \$16,000. 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. Employer contributions vest at 20% per year of service with 100% vesting after five years of service. Contributions actually made by plan members and the Hospital aggregated \$163,553 and \$251,411 during 2018 and \$163,980 and \$254,739 during 2017, respectively.

**Note 9: Functional Expenses**

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2018 and 2017, are as follows:

	<b>2018</b>		
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 2,766,746	\$ 679,943	\$ 3,446,689
Supplies and other	3,025,726	1,054,109	4,079,835
Depreciation	1,280,766	73,567	1,354,333
Interest	-	66,823	66,823
	<u>\$ 7,073,238</u>	<u>\$ 1,874,442</u>	<u>\$ 8,947,680</u>
	<b>2017</b>		
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 2,781,705	\$ 666,386	\$ 3,448,091
Supplies and other	2,984,995	1,043,881	4,028,876
Depreciation	1,379,706	68,753	1,448,459
Interest	-	66,027	66,027
	<u>\$ 7,146,406</u>	<u>\$ 1,845,047</u>	<u>\$ 8,991,453</u>

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**Note 10: Lease and Management Agreement**

The Board of Trustees controls facilities, including buildings, as well as equipment and other assets, which are owned by Kiowa County, Kansas and entered into an agreement to lease these facilities to GPKC for one dollar. The lease provides that GPKC will assume and continue operations of the Hospital and maintain all property and equipment in good condition. The current lease term is for a period of five years through January 2021. In connection with the above lease, GPKC has an agreement with GPHA, the sole member of GPKC, for management services. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPKC upon commencement of the original term. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the Board of Trustees.

In addition, the Hospital has entered into agreements with GPHA for other services, including data processing and billing services. These agreements automatically renew on an annual basis unless cancelled by either party no less than 60 days before the end of the term. Fees incurred for services provided by GPHA to the Hospital totaled \$692,441 and \$689,406 in 2018 and 2017, respectively. Amounts included in accounts payable, related to these services, totaled \$6,058 and \$54,590 as of December 31, 2018 and 2017, respectively.

**Note 11: Great Plains Employee Benefits Trust**

In response to amendments to the Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method.

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**Note 12: 340B Drug Pricing Program**

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$672,266 and \$589,128 for the years ending December 31, 2018 and 2017, respectively, included in other operating income. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

**Note 13: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 4*.