

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2017 and 2016



Stevens County Hospital
A Component Unit of Stevens County, Kansas
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Stevens County Hospital
Hugoton, Kansas

We have audited the accompanying financial statements of Stevens County Hospital (Hospital), a component unit of Stevens County, Kansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Steven County Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the 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 Stevens County Hospital as of December 31, 2017 and 2016, 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
June 4, 2018

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Balance Sheets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 581,389	\$ 1,857,983
Short-term certificates of deposit	2,770	2,472
Patient accounts receivable, net of allowance; 2017 – \$574,000, 2016 – \$612,000	1,268,475	1,770,462
Accounts receivable – retail pharmacy	90,498	72,707
Estimated amounts due from third-party payers	180,000	-
Supplies	286,798	382,000
Prepaid expenses and other	199,214	47,296
	<u>2,609,144</u>	<u>4,132,920</u>
Long-term Certificates of Deposit	<u>-</u>	<u>322,389</u>
Capital Assets, Net	<u>21,288,824</u>	<u>22,065,623</u>
Total assets	<u><u>\$ 23,897,968</u></u>	<u><u>\$ 26,520,932</u></u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 29,135	\$ 28,558
Accounts payable	512,107	601,309
Accrued expenses	771,707	796,598
Estimated amounts due to third-party payers	1,753	675,000
	<u>1,314,702</u>	<u>2,101,465</u>
Long-term Debt	<u>143,931</u>	<u>173,066</u>
Total liabilities	<u>1,458,633</u>	<u>2,274,531</u>
Net Position		
Net investment in capital assets	21,115,758	21,863,999
Unrestricted	1,323,577	2,382,402
	<u>22,439,335</u>	<u>24,246,401</u>
Total liabilities and net position	<u><u>\$ 23,897,968</u></u>	<u><u>\$ 26,520,932</u></u>

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$367,000, 2016 – \$548,000	\$ 13,765,840	\$ 13,658,196
Other	<u>24,868</u>	<u>41,580</u>
Total operating revenues	<u>13,790,708</u>	<u>13,699,776</u>
Operating Expenses		
Salaries and wages	8,247,189	8,145,765
Employee benefits	2,589,643	2,557,324
Purchased services and professional fees	1,595,602	926,968
Supplies and other	2,701,102	2,572,048
Retail pharmacy supplies	892,809	766,784
Depreciation	<u>1,179,059</u>	<u>1,483,762</u>
Total operating expenses	<u>17,205,404</u>	<u>16,452,651</u>
Operating Loss	<u>(3,414,696)</u>	<u>(2,752,875)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Stevens County	1,586,836	1,800,000
Interest income	18,952	20,571
Interest expense	(3,772)	(16,762)
Noncapital grants and gifts	7,666	609
Other	<u>(2,052)</u>	<u>(12,730)</u>
Total nonoperating revenues	<u>1,607,630</u>	<u>1,791,688</u>
Deficiency of Revenues Over Expenses Before Transfer	(1,807,066)	(961,187)
Transfer of Assets from Stevens County	<u>-</u>	<u>2,498,856</u>
Increase (Decrease) in Net Position	(1,807,066)	1,537,669
Net Position, Beginning of Year	<u>24,246,401</u>	<u>22,708,732</u>
Net Position, End of Year	<u>\$ 22,439,335</u>	<u>\$ 24,246,401</u>

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 13,396,789	\$ 13,984,608
Payments to suppliers and contractors	(5,335,431)	(3,889,582)
Payments to and on behalf of employees	(10,861,723)	(10,717,682)
Other receipts, net	<u>24,868</u>	<u>41,580</u>
Net cash used in operating activities	<u>(2,775,497)</u>	<u>(581,076)</u>
Noncapital Financing Activities		
Noncapital appropriations – Stevens County	1,586,836	1,800,000
Noncapital grants and gifts	7,666	609
Other	<u>(2,052)</u>	<u>(12,730)</u>
Net cash provided by noncapital financing activities	<u>1,592,450</u>	<u>1,787,879</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(28,558)	(508,326)
Interest paid on long-term debt	(3,772)	(16,762)
Purchase of capital assets	<u>(402,260)</u>	<u>(111,415)</u>
Net cash used in capital and related financing activities	<u>(434,590)</u>	<u>(636,503)</u>
Investing Activities		
Interest income received	18,952	20,571
Change in certificates of deposit	(298)	(898)
Proceeds from disposition of certificates of deposit	<u>322,389</u>	<u>-</u>
Net cash provided by investing activities	<u>341,043</u>	<u>19,673</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,276,594)	589,973
Cash and Cash Equivalents, Beginning of Year	<u>1,857,983</u>	<u>1,268,010</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 581,389</u></u>	<u><u>\$ 1,857,983</u></u>

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Net		
Cash Used in Operating Activities		
Operating loss	\$ (3,414,696)	\$ (2,752,875)
Depreciation	1,179,059	1,483,762
Provision for uncollectible accounts	367,326	547,771
Changes in operating assets and liabilities		
Patient accounts receivable, net	116,870	(806,359)
Estimated amounts due from and to third-party payers	(853,247)	585,000
Accounts payable and accrued expenses	(114,093)	298,793
Supplies and prepaid expenses and other	<u>(56,716)</u>	<u>62,832</u>
Net cash used in operating activities	<u>\$ (2,775,497)</u>	<u>\$ (581,076)</u>
Noncash, Investing, Capital and Financing Activities		
Capital assets transferred from Stevens County	\$ -	\$ 2,498,856

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and retail pharmacy a in the same geographic 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 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 are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as county appropriations, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of certificates of deposit, which are carried at amortized cost.

Stevens County Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Noncapital Appropriations – Stevens County

The Hospital received approximately 10% and 12% of its financial support from county appropriations derived from property taxes levied by the County in 2017 and 2016, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November of one year 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported for both workers' compensation and property and casualty risks.

Patient Accounts Receivable

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

Supplies

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

Stevens County Hospital
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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:

Land improvements	10 – 40 years
Building	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. 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 plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in two 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 purpose or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

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, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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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 Hospital is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Note 2: 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. These payment arrangements include:

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical diagnostic and other factors. A mandatory payment reduction, known as sequestration, of 2% is in effect and will reduce payments until 2023.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Services rendered for long-term care facility residents are reimbursed under a prospective rate, with annual cost reports submitted to the Medicaid program. Through June 30, 2016, rates were computed each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix index. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

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Approximately 50% and 51% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, 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 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.

Note 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.

At December 31, 2017 and 2016, respectively, \$267,211 and \$1,200,219 of the Hospital's bank balances of \$848,019 and \$2,200,219 were exposed to custodial credit risk as follows:

	2017	2016
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 267,211</u>	<u>\$ 1,200,219</u>

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Notes to Financial Statements
December 31, 2017 and 2016

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	<u>\$ 584,159</u>	<u>\$ 2,182,844</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 581,389	\$ 1,857,983
Short-term certificates of deposit	2,770	2,472
Long-term certificates of deposit	<u>-</u>	<u>322,389</u>
	<u><u>\$ 584,159</u></u>	<u><u>\$ 2,182,844</u></u>

Note 4: 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, 2017 and 2016, consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 654,346	\$ 1,010,662
Medicaid	185,274	326,328
Blue Cross	178,076	171,751
Other third-party payers	206,278	209,784
Patients	<u>618,501</u>	<u>663,937</u>
	1,842,475	2,382,462
Less allowance for uncollectible accounts	<u>574,000</u>	<u>612,000</u>
	<u><u>\$ 1,268,475</u></u>	<u><u>\$ 1,770,462</u></u>

Stevens County Hospital
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Notes to Financial Statements
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Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016, was:

2017					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 103,580	\$ -	\$ -	\$ -	\$ 103,580
Buildings	24,459,255	299,461	-	-	24,758,716
Fixed equipment	3,004,754	18,370	-	-	3,023,124
Major moveable equipment	7,413,847	84,429	-	-	7,498,276
	<u>34,981,436</u>	<u>402,260</u>	<u>-</u>	<u>-</u>	<u>35,383,696</u>
Less accumulated depreciation					
Land improvements	74,061	6,217	-	-	80,278
Buildings	5,662,968	592,268	-	-	6,255,236
Fixed equipment	429,122	192,651	-	-	621,773
Major moveable equipment	6,749,662	387,923	-	-	7,137,585
	<u>12,915,813</u>	<u>1,179,059</u>	<u>-</u>	<u>-</u>	<u>14,094,872</u>
Capital assets, net	<u>\$22,065,623</u>	<u>\$ (776,799)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,288,824</u>

2016					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 103,580	\$ -	\$ -	\$ -	\$ 103,580
Buildings	24,422,433	36,822	-	-	24,459,255
Fixed equipment	482,137	2,522,617	-	-	3,004,754
Major moveable equipment	7,363,015	50,832	-	-	7,413,847
	<u>32,371,165</u>	<u>2,610,271</u>	<u>-</u>	<u>-</u>	<u>34,981,436</u>
Less accumulated depreciation					
Land improvements	67,845	6,216	-	-	74,061
Buildings	5,050,281	612,687	-	-	5,662,968
Fixed equipment	318,530	110,592	-	-	429,122
Major moveable equipment	5,995,395	754,267	-	-	6,749,662
	<u>11,432,051</u>	<u>1,483,762</u>	<u>-</u>	<u>-</u>	<u>12,915,813</u>
Capital assets, net	<u>\$20,939,114</u>	<u>\$ 1,126,509</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$22,065,623</u>

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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.

Note 7: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2017 and 2016:

2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 201,624	\$ -	\$ 28,558	\$ 173,066	\$ 29,135
Total long-term debt	<u>\$ 201,624</u>	<u>\$ -</u>	<u>\$ 28,558</u>	<u>\$ 173,066</u>	<u>\$ 29,135</u>
2016					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 709,950	\$ -	\$ 508,326	\$ 201,624	\$ 28,558
Total long-term debt	<u>\$ 709,950</u>	<u>\$ -</u>	<u>\$ 508,326</u>	<u>\$ 201,624</u>	<u>\$ 28,558</u>

Stevens County Hospital
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Notes to Financial Statements
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Capital Lease Obligations

The Hospital is obligated under leases for equipment and software that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Hospital. Assets under capital leases at December 31, 2017 and 2016, totaled \$106,271 and \$148,780, respectively, net of accumulated depreciation of \$191,289 and \$148,780, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 2.00% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	\$ 32,330
2019	32,330
2020	32,330
2021	32,330
2022	32,330
2023	21,552
Total minimum lease payments	183,202
Less amount representing interest	10,136
	<hr/>
Present value of future minimum lease payments	\$ 173,066

Note 8: Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payrolls were 3% and 4%, respectively, for both 2017 and 2016. Contributions actually made by plan members aggregated \$147,619 and \$135,564 during 2017 and 2016, respectively. Contributions actually made by the Hospital aggregated \$195,588 and \$180,946 during 2017 and 2016, respectively.

Stevens County Hospital
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Notes to Financial Statements
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Note 9: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.