

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
JULY 31, 2018 AND 2017

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RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended July 31, 2018 and 2017

Our discussion and analysis of the financial performance of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) provides a narrative overview of its financial activities for the years ended July 31, 2018 and 2017. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The net position of the County Hospital Board decreased by \$375,008 or 2.59 percent during the 2018 fiscal year and decreased by \$208,723 or 1.42 percent during the 2017 fiscal year.

WCKA, a component unit of the County Hospital Board, reported a decrease of \$167,754 in its operating loss for the 2018 fiscal year and a decrease of \$747,659 in its operating income for the 2017 fiscal year.

Using these financial statements

The financial statements of the County Hospital Board consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the County Hospital Board, including resources held by or for the benefit of the County Hospital Board, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

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

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

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

RUSSELL REGIONAL HOSPITAL BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2018 and 2017

Assets, liabilities, and net position

The County Hospital Board's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 715,697	\$ 530,690	\$ 539,220
Assets limited as to use	3,024,861	4,574,258	5,341,004
Capital assets, net	7,149,952	6,598,481	5,624,992
Other assets	<u>3,465,419</u>	<u>3,475,848</u>	<u>3,530,161</u>
Total assets	<u>\$14,355,929</u>	<u>\$15,179,277</u>	<u>\$15,035,377</u>
Liabilities			
Current liabilities	\$ 68,629	\$ 460,363	\$ 53,014
Long-term liabilities	<u>195,621</u>	<u>252,227</u>	<u>306,953</u>
Total liabilities	<u>\$ 264,250</u>	<u>\$ 712,590</u>	<u>\$ 359,967</u>
Net position	<u>\$14,091,679</u>	<u>\$14,466,687</u>	<u>\$14,675,410</u>

Other assets consist primarily of the County Hospital Board's residual interest in WCKA's net position. The County Hospital Board's residual interest in WCKA's net position decreased by \$10,429, \$54,313, and increased \$475,740 during the years ended July 31, 2018, 2017, and 2016, respectively.

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed \$5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of \$5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of \$4,530,000. The proceeds of the 2012 bonds along with other funds were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred \$424,361, \$422,530, and \$425,028 to the County during the 2018, 2017, and 2016 fiscal years, respectively, to pay principal and interest due on the bonds.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2018 and 2017

The net position of the County Hospital Board decreased by \$375,008 or 2.59 percent during the 2018 fiscal year and decreased by \$208,723 or 1.42 percent during the 2017 fiscal year.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 4,006,568	\$ 3,827,172	\$ 4,018,991
Assets limited as to use	286,493	429,966	298,780
Capital assets, net	<u>1,129,001</u>	<u>808,953</u>	<u>701,343</u>
Total assets	<u>\$ 5,422,062</u>	<u>\$ 5,066,091</u>	<u>\$ 5,019,114</u>
Liabilities			
Current liabilities	\$ 1,260,286	\$ 1,140,944	\$ 1,269,590
Long-term obligations	658,557	411,499	181,563
Due to lessor	<u>3,465,419</u>	<u>3,475,848</u>	<u>3,530,161</u>
Total liabilities	<u>\$ 5,384,262</u>	<u>\$ 5,028,291</u>	<u>\$ 4,981,314</u>
Net position	<u>\$ 37,800</u>	<u>\$ 37,800</u>	<u>\$ 37,800</u>

WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2027. At the end of the lease term, WCKA has agreed to return all of its net position to the County Hospital Board. Accordingly, WCKA's net position is presented as a liability ("due to lessor") in its financial statements. The residual interest in WCKA's unrestricted net position is presented as an asset in the financial statements of the County Hospital Board.

WCKA's net position decreased by \$10,429 or 0.30 percent during the 2018 fiscal year and decreased by \$54,313 or 1.52 percent during the 2017 fiscal year.

RUSSELL REGIONAL HOSPITAL BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2018 and 2017

Operating results and changes in net position

The operating results and changes in net position for the County Hospital Board during each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 4,599	\$ 3,390	\$ 3,014
Operating expenses	<u>1,177,378</u>	<u>963,126</u>	<u>942,614</u>
Operating loss	(1,172,779)	(959,736)	(939,600)
Property taxes	605,385	523,659	582,665
Sales taxes	477,122	469,686	498,259
Other nonoperating revenue, net	16,030	10,185	18,451
Capital grants and contributions	359,300	560,941	1,746,522
Transfers to WCKA	(225,276)	(336,615)	(239,576)
Transfers to Russell County	(424,361)	(422,530)	(425,028)
Change in obligation of lessee to lessor	<u>(10,429)</u>	<u>(54,313)</u>	<u>475,740</u>
Change in net position	<u>\$ (375,008)</u>	<u>\$ (208,723)</u>	<u>\$ 1,717,433</u>

Operating expenses consist primarily of depreciation on capital assets; \$836,276, \$760,185, and \$659,995 during each of the years ended July 31, 2018, 2017, and 2016, respectively.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$16,875,209	\$15,998,529	\$16,271,053
Operating expenses	<u>17,228,464</u>	<u>16,519,538</u>	<u>16,044,403</u>
Operating income (loss)	(353,255)	(521,009)	226,650
Other nonoperating revenue, net	117,550	130,081	47,314
Transfers from County Hospital Board	<u>225,276</u>	<u>336,615</u>	<u>239,576</u>
Change in net position	<u>\$ (10,429)</u>	<u>\$ (54,313)</u>	<u>\$ 513,540</u>

The first, and most significant, component of the overall change in WCKA's net position is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2018 and 2017

WCKA reported an operating loss during 2018 and 2017 and operating income during the 2016 fiscal year. The operating loss decreased by \$167,754 and operating income decreased by \$747,659 during the 2018 and 2017 fiscal years, respectively. Comparability of operating results is impacted by participation in the 340(b) drug program. WCKA recognized \$1,459,815 in revenue and incurred \$1,033,129 in expenses related to the 340(b) drug program during the 2018 fiscal year. WCKA recognized \$1,509,280 in revenue and incurred \$1,098,570 in expenses related to the 340(b) drug program during the 2017 fiscal year. Without participation in the 340(b) drug program, WCKA would have sustained operating losses of \$779,941 and \$931,719 for the 2018 and 2017 fiscal years, respectively.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Inpatient services	\$ 5,151,287	\$ 4,737,143	\$ 5,240,880
Outpatient services	15,715,447	14,794,831	13,628,106
Physician services	<u>3,088,210</u>	<u>2,926,613</u>	<u>2,889,819</u>
Gross patient service revenue	23,954,944	22,458,587	21,758,805
Contractual adjustments	(8,010,909)	(7,614,015)	(7,117,376)
Medicaid disproportionate share payments	276,533	260,212	273,488
Provision for bad debts	(914,811)	(711,311)	(616,896)
Charity care	<u>(209,027)</u>	<u>(189,711)</u>	<u>(126,165)</u>
Net patient service revenue	<u>\$15,096,730</u>	<u>\$14,203,762</u>	<u>\$14,171,856</u>

WCKA did not raise its charge rates across the board during the 2018, 2017, or 2016 fiscal years. In the 2018 fiscal year, minor changes for charges occurred for the long-term care unit and IV-therapy administration. Most of the overall changes in gross patient service revenue during the past three years are due to changes in inpatient and outpatient volume. Gross revenues from inpatient services increased by 8.7 percent during the 2018 fiscal year, decreased 9.6 percent during the 2017 fiscal year, and decreased 1.2 percent during the 2016 fiscal year. Total patient days (acute and swing-bed combined), increased by 13.0 percent during the fiscal year 2018, and decreased by 6.4 percent and 11.5 percent during fiscal years 2017 and 2016, respectively. The change in inpatient revenues were greatly influenced by variations in the number of patient days with the exception of fiscal year 2016 when ancillary inpatient drug revenues increased significantly offsetting the significant decrease in patient days. Gross revenues for outpatient services increased by 6.2, 8.6, and 3.1 percent during the 2018, 2017, and 2016 fiscal years, respectively. These changes were primarily the result of changes in outpatient volume.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2018 and 2017

WCKA has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 33.4, 33.9, and 32.7 percent during the 2018, 2017, and 2016 fiscal years, respectively. These values are comparable to those for similar critical access hospitals. As a critical access hospital, contractual adjustments for the Medicare program are much lower as a percentage of gross charges than they are for most other third-party payors. The contractual adjustment rate for cost reimbursed Medicare services generally rises when patient volume increases, and falls when drops in patient volume are experienced.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Russell Regional Hospital Board
d/b/a Russell Regional Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board), a component unit of Russell County, Kansas, as of and for the years ended July 31, 2018 and 2017, and the related notes to the financial statements which collectively comprise the County Hospital Board's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of the Russell Regional Hospital Board d/b/a Russell Regional Hospital, as of July 31, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
January 3, 2019

FINANCIAL STATEMENTS

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
STATEMENTS OF NET POSITION

July 31,

ASSETS

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT ASSETS				
Cash	\$ 579,734	\$ 1,628,305	\$ 430,510	\$ 1,617,471
Patient accounts receivable, less allowance for uncollectible accounts of \$695,098 in 2018 and \$640,635 in 2017		1,623,021		1,687,003
Other receivables	53,783	172,248		113,481
Estimated third-party payor settlements		174,735		1,195
Sales tax receivable	80,000		98,000	
Inventories		284,659		284,777
Prepaid expenses	2,180	123,600	2,180	123,245
Total current assets	715,697	4,006,568	530,690	3,827,172
ASSETS LIMITED AS TO USE				
Internally designated				
For capital assets	2,319,201		1,602,456	
For employee benefits		248,693		392,166
By contributors and grantors				
For specific operating activities		37,800		37,800
For capital assets	408,739		2,674,881	
Principal of permanent endowments	296,921		296,921	
Total assets limited as to use	3,024,861	286,493	4,574,258	429,966
CAPITAL ASSETS, NET	7,149,952	1,129,001	6,598,481	808,953
OTHER ASSETS				
Due from lessee	3,465,419		3,475,848	
Total assets	\$14,355,929	\$ 5,422,062	\$15,179,277	\$ 5,066,091

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT LIABILITIES				
Current portion of notes payable to banks	\$ 56,610	\$ 15,562	\$ 54,783	\$ 13,939
Current portion of capital lease obligations		155,355		92,122
Accounts payable	12,019	269,924	405,580	213,516
Estimated third-party payor settlements		55,259		90,581
Accrued salaries and benefits		447,848		415,239
Accrued compensated absences		315,539		314,655
Accrued interest		799		892
Total current liabilities	68,629	1,260,286	460,363	1,140,944
CAPITAL LEASE OBLIGATIONS, less current portion		650,534		400,903
NOTES PAYABLE TO BANKS, less current portion	195,621	8,023	252,227	10,596
DUE TO LESSOR		3,465,419		3,475,848
Total liabilities	264,250	5,384,262	712,590	5,028,291
NET POSITION				
Invested in capital assets net of related debt	6,897,721		6,291,471	
Restricted				
Expendable for specific operating activities		37,800		37,800
Expendable for capital acquisitions	408,739		2,674,881	
Nonexpendable permanent endowments	296,921		296,921	
Unrestricted	6,488,298		5,203,414	
Total net position	14,091,679	37,800	14,466,687	37,800
Total liabilities and net position	\$14,355,929	\$ 5,422,062	\$15,179,277	\$ 5,066,091

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended July 31,

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
Operating revenues				
Net patient service revenue	\$ -	\$15,096,730	\$ -	\$14,203,762
Other revenue	4,599	1,778,479	3,390	1,794,767
Total operating revenues	4,599	16,875,209	3,390	15,998,529
Operating expenses				
Salaries and wages		9,191,484		9,075,827
Employee benefits		1,833,921		1,679,732
Purchased services, supplies, and other	341,102	5,919,555	202,941	5,520,457
Depreciation and amortization	836,276	283,504	760,185	243,522
Total operating expenses	1,177,378	17,228,464	963,126	16,519,538
Operating loss	(1,172,779)	(353,255)	(959,736)	(521,009)
Nonoperating revenues (expenses)				
Property taxes	605,385		523,659	
Sales taxes	477,122		469,686	
Investment income	11,870		4,430	
Interest expense	(9,447)	(34,100)	(11,268)	(20,812)
Noncapital grants and contributions	13,607	151,650	17,023	150,893
Total nonoperating revenues (expenses)	1,098,537	117,550	1,003,530	130,081
Excess of revenues over (under) expenses before capital grants and contributions and transfers	(74,242)	(235,705)	43,794	(390,928)
Capital grants and contributions	359,300		560,941	
Transfers				
Between Hospital Board and component unit	(225,276)	225,276	(336,615)	336,615
To Russell County	(424,361)		(422,530)	
Change in net position	(364,579)	(10,429)	(154,410)	(54,313)
Net position at beginning of year	14,466,687	37,800	14,675,410	37,800
Change in obligation of lessee to lessor	(10,429)	10,429	(54,313)	54,313
Net position at end of year	<u>\$14,091,679</u>	<u>\$ 37,800</u>	<u>\$14,466,687</u>	<u>\$ 37,800</u>

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended July 31,

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ -	\$14,951,850	\$ -	\$14,810,196
Payments to or on behalf of employees		(10,991,912)		(10,815,466)
Payments for supplies and services	(330,121)	(5,901,237)	(201,738)	(5,660,276)
Other receipts and payments	4,599	1,719,712	3,390	1,919,831
Net cash provided (used) by operating activities	(325,522)	(221,587)	(198,348)	254,285
Cash flows from noncapital financing activities				
Tax levies	1,100,507		993,345	
Noncapital grants and contributions	13,607	151,650	17,023	150,893
Proceeds from notes payable to banks		76,924		69,350
Payments on notes payable to banks		(75,427)		(66,278)
Interest paid		(2,190)		(1,698)
Transfers	(225,276)	225,276	(336,615)	336,615
Net cash provided by noncapital financing activities	888,838	376,233	673,753	488,882
Cash flows from capital and related financing activities				
Acquisition of capital assets	(1,792,289)	(565,699)	(1,329,132)	(391,476)
Capital grants and contributions	451,548		808,658	
Proceeds from notes payable to banks				13,428
Payments on notes payable to banks	(54,779)	(2,447)	(52,957)	(385)
Interest paid	(9,447)	(32,003)	(11,268)	(18,222)
Capital lease obligations incurred		445,592		358,601
Payments on capital lease obligations		(132,728)		(99,478)
Transfers to Russell County	(424,361)		(422,530)	
Net cash used by capital and related financing activities	(1,829,328)	(287,285)	(1,007,229)	(137,532)
Cash flows from investing activities				
Interest income received	11,870		4,430	
Net cash provided by investing activities	11,870	-	4,430	-
Net change in cash and cash equivalents	(1,254,142)	(132,639)	(527,394)	605,635
Cash and cash equivalents at beginning of year	4,858,737	2,047,437	5,386,131	1,441,802
Cash and cash equivalents at end of year	\$ 3,604,595	\$ 1,914,798	\$ 4,858,737	\$ 2,047,437

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended July 31,

	2018		2017	
	<u>Hospital Board</u>	<u>Component unit</u>	<u>Hospital Board</u>	<u>Component unit</u>
Reconciliation of cash and cash equivalents				
Cash	\$ 579,734	\$ 1,628,305	\$ 430,510	\$ 1,617,471
Cash included in assets limited as to use				
Internally designated	2,319,201	248,693	1,602,456	392,166
By contributors	408,739	37,800	2,528,850	37,800
Principal of permanent endowments	<u>296,921</u>		<u>296,921</u>	
Total cash and cash equivalents	<u>\$ 3,604,595</u>	<u>\$ 1,914,798</u>	<u>\$ 4,858,737</u>	<u>\$ 2,047,437</u>
Reconciliation of operating loss to net cash provided (used) by operating activities				
Operating loss	\$ (1,172,779)	\$ (353,255)	\$ (959,736)	\$ (521,009)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	836,276	283,504	760,185	243,522
Provision for bad debts		914,811		711,311
Changes in				
Patient accounts receivable		(850,829)		(679,333)
Estimated third-party payor settlements		(208,862)		574,456
Inventories and other current assets		(59,004)	165	104,834
Accounts payable and accrued expenses	<u>10,981</u>	<u>52,048</u>	<u>1,038</u>	<u>(179,496)</u>
Net cash provided (used) by operating activities	<u>\$ (325,522)</u>	<u>\$ (221,587)</u>	<u>\$ (198,348)</u>	<u>\$ 254,285</u>

The accompanying notes are an integral part of these statements.

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
July 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

The Russell Regional Hospital Board d/b/a Russell Regional Hospital (the County Hospital Board) is a county hospital located in Russell, Kansas. It is a component unit of Russell County, Kansas (the County). The County Hospital Board consists of seven members elected by residents of the County. It annually levies a tax to support its activities. The County Hospital Board can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The component unit discussed in Note A2 is included in the County Hospital Board's reporting entity because of the significance of its relationship with the County Hospital Board.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the County Hospital Board.

West Central Kansas Association, Inc. d/b/a Russell Regional Hospital (WCKA), is a not-for-profit membership corporation organized to operate an acute care hospital and nursing facility located in Russell, Kansas. WCKA was organized on June 23, 1997, and on August 1, 1997, it assumed custody of assets and liabilities related to hospital operations from the County Hospital Board pursuant to a 10-year lease agreement. The lease agreement has been extended and is in effect through July 31, 2027. At the end of the lease term, WCKA has agreed to return all of its net position to the County Hospital Board, including any property or equipment acquired after inception of the lease. Accordingly, WCKA has recorded an obligation for the estimated liability due to the County Hospital Board at termination of the lease agreement.

3. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Basis of accounting

The County Hospital Board uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Cash and cash equivalents

The County Hospital Board and WCKA considers all cash and invested cash to be cash equivalents. This represents an accounting policy change since previously none of the assets limited as to use were considered to be cash equivalents. Comparative financial statements of the prior year have been restated to reflect this change. This restatement had no effect on previously reported net position or the change in net position of the County Hospital Board and WCKA.

6. Allowance for uncollectible accounts

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, WCKA analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor 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, WCKA analyzes contractually due amounts and provides an allowance for uncollectible 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 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), WCKA 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. 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 uncollectible accounts.

7. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined on the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the County Hospital Board for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by contributors for a particular purpose; assets required by contributors to be retained in perpetuity, and assets set aside by WCKA for employee benefits, over which WCKA retains control and may, at WCKA's discretion subsequently use for other purposes. Amounts that are required for obligations classified as current liabilities are reported in current assets.

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NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

10. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

11. Grants and contributions

From time to time, the County Hospital Board and WCKA receive grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

12. Net position

The net positions of the County Hospital Board and WCKA are classified into four components. Net position invested in capital assets net of related debt consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the County Hospital Board and WCKA. Restricted nonexpendable net position equals the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definitions of the other three components of net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

13. Operating revenues and expenses

The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the principal activity of the County Hospital Board and WCKA. Nonexchange revenues, including tax levies and noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and the provision for bad debts. 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.

15. Charity care

WCKA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because WCKA does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

16. Income taxes

The County Hospital Board is exempt from federal taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

WCKA is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. WCKA's management is not aware of any uncertainties in income tax positions. The years ended July 31, 2018, 2017, 2016, and 2015, remain subject to examination by both federal and state taxing authorities.

17. Subsequent events

The County Hospital Board has evaluated subsequent events through January 3, 2019, which is the date the financial statements were available to be issued.

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July 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE

WCKA has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - WCKA is a critical access hospital for purposes of the Medicare program. Hospital and rural health clinic (RHC) services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies. Physician services, other than RHC services, rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. WCKA is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by WCKA and audits or reviews thereof by the Medicare administrative contractor. WCKA's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. WCKA's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through July 31, 2016.

Medicaid - Hospital services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. Physician services, other than RHC services, rendered to Medicaid beneficiaries are paid on a prospectively determined fee schedule. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of gross and net patient service revenue follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$23,954,944	\$22,458,587
Contractual adjustments	(8,010,909)	(7,614,015)
Medicaid disproportionate share payments	276,533	260,212
Charity care	<u>(209,027)</u>	<u>(189,711)</u>
Patient service revenue	16,011,541	14,915,073
Provision for bad debts	<u>(914,811)</u>	<u>(711,311)</u>
Net patient service revenue	<u>\$15,096,730</u>	<u>\$14,203,762</u>

Patient service revenue, net of contractual adjustments and charity care (but before the provision for bad debts) by major payor sources is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 8,408,861	\$ 7,575,613
Medicaid	1,316,495	1,423,049
Blue Cross	2,869,741	3,065,629
Other third-party payors	1,924,497	1,538,220
Patients	<u>1,491,947</u>	<u>1,312,562</u>
Patient service revenue	<u>\$16,011,541</u>	<u>\$14,915,073</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 53 percent and 8 percent, respectively, of WCKA's net patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2018, and 51 percent and 10 percent, respectively, of WCKA's patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

WCKA is dedicated to providing both services and leadership in caring for the needy and accepts all patients regardless of the ability to pay. WCKA provides such care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since WCKA does not attempt to collect amounts initially determined to qualify as charity care, such charges are not included in net patient service revenue. The costs incurred in providing these services of approximately \$135,000 and \$124,000 during the years ended July 31, 2018 and 2017, respectively, are included in WCKA's operating expenses and are estimated using WCKA's overall cost-to-charge ratio. In addition, WCKA provides care for medically indigent patients covered under the Medicaid welfare program at rates substantially below standard charges.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

WCKA's allowance for uncollectible accounts on amounts due from patients was 83 percent and 79 percent of self-pay accounts receivable as of July 31, 2018 and 2017, respectively. WCKA's net bad debt write-offs were \$810,348 and \$728,025 for the years ended July 31, 2018 and 2017, respectively. WCKA did not change its charity care or uninsured discount policies during the years ended July 31, 2018 or 2017. WCKA does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the County Hospital Board, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the County Hospital Board.

At July 31, 2018, the carrying amounts of bank deposits, including certificates of deposit, were \$3,604,595 for the County Hospital Board and \$1,913,798 for WCKA. The bank balances for the two entities were \$3,636,314 and \$2,196,297, respectively. Of the County Hospital Board's bank balances, \$528,804 was covered by federal depository insurance and \$3,107,510 was covered by collateral held by a third-party bank but not registered in the name of the County Hospital Board. Of WCKA's bank balances, \$518,468 was covered by federal depository insurance, \$1,677,829 was covered by collateral held by a third-party bank but not registered in the name of WCKA.

Bank deposits are included in the financial statements under the following categories:

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
Unrestricted funds				
Cash and invested cash	\$ 579,734	\$ 1,627,305	\$ 430,510	\$ 1,616,471
Assets limited as to use				
Internally designated				
For capital assets	2,319,201		1,602,456	
For employee benefits		248,693		392,166
By contributors				
For specific operating activities		37,800		37,800
For capital assets	408,739		2,528,850	
Principal of permanent endowments	<u>296,921</u>		<u>296,921</u>	
Total bank deposits	<u>\$3,604,595</u>	<u>\$1,913,798</u>	<u>\$4,858,737</u>	<u>\$2,046,437</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	2018		2017	
	Hospital Board	Component unit	Hospital Board	Component unit
Internally designated				
For capital assets				
Cash	<u>\$ 2,319,201</u>	<u>\$ -</u>	<u>\$ 1,602,456</u>	<u>\$ -</u>
For employee benefits				
Cash	<u>\$ -</u>	<u>\$ 248,693</u>	<u>\$ -</u>	<u>\$ 392,166</u>
By contributors				
For specific operating activities				
Cash	<u>\$ -</u>	<u>\$ 37,800</u>	<u>\$ -</u>	<u>\$ 37,800</u>
For capital assets				
Cash and certificates of deposit	<u>\$ 408,739</u>	<u>\$ -</u>	<u>\$ 2,528,850</u>	<u>\$ -</u>
Contribution receivable			<u>146,031</u>	
	<u>\$ 408,739</u>	<u>\$ -</u>	<u>\$ 2,674,881</u>	<u>\$ -</u>
Principal of permanent endowments				
Certificates of deposit	<u>\$ 296,921</u>	<u>\$ -</u>	<u>\$ 296,921</u>	<u>\$ -</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances for the County Hospital Board are as follows:

	2018			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land and improvements	\$ 337	\$ 191,497	\$ -	\$ 191,834
Buildings and fixed equipment	12,089,310	2,430,130		14,519,440
Major movable equipment	2,759,944	220,361		2,980,305
Totals at historical cost	<u>14,849,591</u>	<u>2,841,988</u>	<u>-</u>	<u>17,691,579</u>
Less accumulated depreciation and amortization				
Land improvements		4,676		4,676
Buildings and fixed equipment	7,736,473	588,684		8,325,157
Major movable equipment	1,973,878	242,916		2,216,794
	<u>9,710,351</u>	<u>836,276</u>	<u>-</u>	<u>10,546,627</u>
Construction in progress	<u>1,459,241</u>	<u>(1,454,241)</u>	<u>-</u>	<u>5,000</u>
Capital assets, net	<u>\$ 6,598,481</u>	<u>\$ 551,471</u>	<u>\$ -</u>	<u>\$ 7,149,952</u>
	2017			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land and improvements	\$ 337	\$ -	\$ -	\$ 337
Buildings and fixed equipment	12,071,962	17,348		12,089,310
Major movable equipment	2,459,264	300,680		2,759,944
Totals at historical cost	<u>14,531,563</u>	<u>318,028</u>	<u>-</u>	<u>14,849,591</u>
Less accumulated depreciation and amortization				
Buildings and fixed equipment	7,216,636	519,837		7,736,473
Major movable equipment	1,733,530	240,348		1,973,878
	<u>8,950,166</u>	<u>760,185</u>	<u>-</u>	<u>9,710,351</u>
Construction in progress	<u>43,595</u>	<u>1,415,646</u>	<u>-</u>	<u>1,459,241</u>
Capital assets, net	<u>\$ 5,624,992</u>	<u>\$ 973,489</u>	<u>\$ -</u>	<u>\$ 6,598,481</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE F - CAPITAL ASSETS - Continued

Capital asset additions, retirements, and balances for WCKA are as follows:

	2018			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land improvements	\$ 237,874	\$ -	\$ -	\$ 237,874
Fixed equipment	951,805	39,407		991,212
Major movable equipment	<u>3,151,483</u>	<u>571,052</u>		<u>3,722,535</u>
Totals at historical cost	<u>4,341,162</u>	<u>610,459</u>	<u>-</u>	<u>4,951,621</u>
Less accumulated depreciation and amortization				
Land improvements	140,006	25,454		165,460
Fixed equipment	926,390	8,416		934,806
Major movable equipment	<u>2,472,720</u>	<u>249,634</u>		<u>2,722,354</u>
	<u>3,539,116</u>	<u>283,504</u>	<u>-</u>	<u>3,822,620</u>
Construction in progress	<u>6,907</u>	<u>(6,907)</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 808,953</u>	<u>\$ 320,048</u>	<u>\$ -</u>	<u>\$ 1,129,001</u>

	2017			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land improvements	\$ 237,874	\$ -	\$ -	\$ 237,874
Fixed equipment	951,805			951,805
Major movable equipment	<u>2,895,008</u>	<u>391,475</u>	<u>135,000</u>	<u>3,151,483</u>
Totals at historical cost	<u>4,084,687</u>	<u>391,475</u>	<u>135,000</u>	<u>4,341,162</u>
Less accumulated depreciation and amortization				
Land improvements	114,551	25,455		140,006
Fixed equipment	918,294	8,096		926,390
Major movable equipment	<u>2,350,499</u>	<u>209,971</u>	<u>87,750</u>	<u>2,472,720</u>
	<u>3,383,344</u>	<u>243,522</u>	<u>87,750</u>	<u>3,539,116</u>
Construction in progress	<u></u>	<u>6,907</u>	<u></u>	<u>6,907</u>
Capital assets, net	<u>\$ 701,343</u>	<u>\$ 154,860</u>	<u>\$ 47,250</u>	<u>\$ 808,953</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE F - CAPITAL ASSETS - Continued

On November 4, 2003, a majority of the qualified electors of the County approved, at a special bond election, the question of whether to issue general obligation bonds of the County in an amount not to exceed \$5,500,000 to pay the costs of making improvements to the hospital facility. The County issued its General Obligation Hospital Bonds, Series 2004, on July 1, 2004, in the amount of \$5,500,000. Costs incurred by the County Hospital Board subsequent to issuance of the bonds for renovations and additions to its facility were submitted to the County for reimbursement from the bond proceeds. Reimbursements received and costs paid directly from the bond proceeds were recorded as capital contributions.

On May 15, 2012, the County issued its General Obligation Hospital Refunding Bonds, Series 2012, in the amount of \$4,530,000. The proceeds of the 2012 bonds along with other funds, were used to refund the Series 2004 bonds and to pay costs related to the issuance of the 2012 bonds.

To the extent that resources are available, the County Hospital Board and WCKA have agreed to transfer funds to the County for purposes of making principal and interest payments on the bonds as they come due. However, it is uncertain what amounts, if any, the two entities will be able to transfer to the County in future periods. The County Hospital Board transferred \$424,361 and \$422,530 to the County during 2018 and 2017, respectively, to pay principal and interest due on the bonds.

NOTE G - EMPLOYEE HEALTH INSURANCE

WCKA sponsors a self-insured employee health insurance plan. WCKA reinsures a portion of its risk under that plan. The reinsurance arrangement generally covers claims totaling over \$30,000 for each covered individual on an annual basis for claims incurred prior to January 1, 2017, and generally covers claims totaling over \$40,000 for each covered individual on an annual basis for claims incurred on or after January 1, 2018. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. WCKA has retained an agent to process and settle claims.

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE G - EMPLOYEE HEALTH INSURANCE - Continued

The following is a summary of the activity under this arrangement:

	<u>2018</u>	<u>2017</u>
Estimated net health insurance claims payable at beginning of year	\$ 62,262	\$ 8,379
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	968,483	869,155
Participant contributions	544,863	465,629
Payments made for claims and related expenses	<u>(1,480,950)</u>	<u>(1,280,901)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 94,658</u>	<u>\$ 62,262</u>
Estimated health insurance claims payable at end of year (included in accrued salaries, wages, and benefits)	\$ 100,000	\$ 102,000
Reinsurance proceeds recoverable (included in other receivables)	<u>(5,342)</u>	<u>(39,738)</u>
	<u>\$ 94,658</u>	<u>\$ 62,262</u>

NOTE H - NOTES PAYABLE TO BANKS

The County Hospital Board's note payable to bank is summarized as follows:

	<u>2018</u>	<u>2017</u>
3.50% note payable to UMB Bank, original amount of \$399,597, payable in quarterly installments of \$16,056 including interest, through October 31, 2022, collateralized by building improvements	\$ 252,231	\$ 307,010
Less current portion of note payable to bank	<u>56,610</u>	<u>54,783</u>
Note payable to bank, less current portion	<u>\$ 195,621</u>	<u>\$ 252,227</u>

The following is a summary of changes in the County Hospital Board's note payable to bank:

	<u>2018</u>	<u>2017</u>
Outstanding at beginning of year	\$ 307,010	\$ 359,967
Principal payments	<u>(54,779)</u>	<u>(52,957)</u>
Outstanding at end of year	<u>\$ 252,231</u>	<u>\$ 307,010</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE H - NOTES PAYABLE TO BANKS - Continued

Scheduled payments on the County Hospital Board's note payable to bank is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 56,610	\$ 7,616	\$ 64,226
2020	58,484	5,742	64,226
2021	60,450	3,776	64,226
2022	62,466	1,760	64,226
2023	<u>14,221</u>	<u>117</u>	<u>14,338</u>
Total minimum lease payments	<u>\$ 252,231</u>	<u>\$ 19,011</u>	<u>\$ 271,242</u>

WCKA's notes payable to bank are summarized as follows:

	<u>2018</u>	<u>2017</u>
4.50% note payable to Fidelity State Bank & Trust Company, original amount of \$24,936, payable in equal monthly installments of \$2,829, including interest, through October 1, 2017, collateralized by refundable unearned medical malpractice insurance premiums	\$ -	\$ 11,492
5.28% note payable to Fidelity State Bank & Trust Company, original amount of \$41,235, payable in equal monthly installments of \$4,691, including interest, through October 1, 2018, collateralized by refundable unearned medical malpractice insurance premiums	12,989	
5.00% note payable to Southwind Bank, original amount of \$13,428, payable in monthly installments of \$254, including interest through May 14, 2022, collateralized by a vehicle with an amortized cost of \$10,226	<u>10,596</u>	<u>13,043</u>
	23,585	24,535
Less current portion of notes payable to bank	<u>15,562</u>	<u>13,939</u>
Notes payable to bank, less current portion	<u>\$ 8,023</u>	<u>\$ 10,596</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE H - NOTES PAYABLE TO BANKS - Continued

The following is a summary of changes in WCKA's notes payable to bank:

	<u>2018</u>	<u>2017</u>
Outstanding at beginning of year	\$ 24,535	\$ 8,420
Obligations incurred	76,924	82,778
Principal payments	<u>(77,874)</u>	<u>(66,663)</u>
Outstanding at end of year	<u>\$ 23,585</u>	<u>\$ 24,535</u>

Scheduled payments on WCKA's notes payable to banks are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,562	\$ 594	\$ 16,156
2020	2,704	340	3,044
2021	2,842	201	3,043
2022	<u>2,477</u>	<u>60</u>	<u>2,537</u>
Total minimum lease payments	<u>\$ 23,585</u>	<u>\$ 1,195</u>	<u>\$ 24,780</u>

NOTE I - CAPITAL LEASE OBLIGATIONS

Capital lease obligations for WCKA are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital lease obligations, imputed interest rates of 3.2% to 7.7%, collateralized by leased equipment with an amortized cost of \$807,882	\$ 805,889	\$ 493,025
Less current portion of capital lease obligations	<u>155,355</u>	<u>92,122</u>
Capital lease obligations, less current portion	<u>\$ 650,534</u>	<u>\$ 400,903</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2018 and 2017

NOTE I - CAPITAL LEASE OBLIGATIONS - Continued

Scheduled payments on WCKA's capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 155,355	\$ 34,240	\$ 189,595
2020	153,047	26,372	179,419
2021	138,973	18,534	157,507
2022	117,692	12,581	130,273
2023	118,222	7,091	125,313
Thereafter	<u>122,600</u>	<u>4,468</u>	<u>127,068</u>
Total minimum lease payments	<u>\$ 805,889</u>	<u>\$ 103,286</u>	<u>\$ 909,175</u>

The following is a summary of changes in WCKA's capital lease obligations:

	<u>2018</u>	<u>2017</u>
Outstanding at beginning of year	\$ 493,025	\$ 281,152
Obligations incurred	445,592	358,601
Principal payments	<u>(132,728)</u>	<u>(146,728)</u>
Outstanding at end of year	<u>\$ 805,889</u>	<u>\$ 493,025</u>

NOTE J - INTEREST EXPENSE

Total interest costs on notes payable to banks and capital lease obligations are as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Hospital Board</u>	<u>Component unit</u>	<u>Hospital Board</u>	<u>Component unit</u>
Total interest incurred	\$ 9,447	\$ 34,100	\$ 11,268	\$ 20,812
Interest expense	<u>\$ 9,447</u>	<u>\$ 34,100</u>	<u>\$ 11,268</u>	<u>\$ 20,812</u>

NOTE K - OTHER SUPPORT

WCKA is dependent on the County Hospital Board for continuing operations. The support consists of either loans (in the form of noninterest-bearing notes) or direct equity transfers. The County Hospital Board directly transferred \$225,276 and \$336,615 to WCKA during the years ended July 31, 2018 and 2017, respectively.

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE L - OPERATING LEASES

WCKA leases property and equipment from the County Hospital Board under a lease agreement expiring on July 31, 2027. Under the terms of the agreement, WCKA is to make payments for leases and other obligations previously incurred by the County Hospital Board. There were no further minimum lease payments due under this agreement as of July 31, 2003.

WCKA also leases equipment under various operating leases. Total rental expense for all operating leases for the years ended July 31, 2018 and 2017, was \$19,619 and \$26,694, respectively.

NOTE M - PENSION PLAN

WCKA sponsors the Russell Regional Hospital 401(k) Plan (the Plan) a defined contribution plan. The Plan covers substantially all full-time employees who have completed one year of service and are at least 21 years of age. WCKA's contributions to the Plan are 50 percent of each participant's elective deferral, not to exceed 4 percent of the participant's compensation. Participants may defer up to 24 percent of their annual gross wages. Participant contributions are 100 percent vested at all times and employer contribution provisions, including contribution requirements, may be amended by WCKA. Contributions to the Plan for the year ended July 31, 2018, were approximately \$462,519, which consisted of \$106,791 from WCKA and \$355,728 from employees. Contributions to the Plan for the year ended July 31, 2017, were approximately \$414,109, which consisted of \$96,881 from WCKA and \$317,229 from employees.

NOTE N - CONCENTRATION OF CREDIT RISK

WCKA grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2018</u>	<u>2017</u>
Medicare	39.7%	43.2%
Medicaid	9.3	6.1
Blue Cross	9.3	12.8
Other insurance	14.3	11.2
Patients	<u>27.4</u>	<u>26.7</u>
	<u>100.0%</u>	<u>100.0%</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE O - RISK MANAGEMENT

For the year ended July 31, 2018, WCKA was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. WCKA is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against it for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy year of \$1,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through August 1, 2019. WCKA intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under WCKA's incident reporting system has been made because the amount is not reasonably estimable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to July 31, 2018, will have no material effect on the financial statements of WCKA or the County Hospital Board.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, the County Hospital Board and WCKA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County Hospital Board and WCKA purchase commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.