

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
JULY 31, 2017 AND 2016

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RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended July 31, 2017 and 2016

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, 2017 and 2016. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The net position of the County Hospital Board decreased by \$208,723 or 1.42 percent during the 2017 fiscal year and increased by \$1,717,433 or 13.25 percent during the 2016 fiscal year.

WCKA, a component unit of the County Hospital Board, reported a decrease of \$747,659 and an increase of \$95,383 in its operating income for the 2017 and 2016 fiscal years, respectively.

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, 2017 and 2016

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>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$ 530,690	\$ 539,220	\$ 416,862
Assets limited as to use	4,574,258	5,341,004	4,896,097
Capital assets, net	6,598,481	5,624,992	4,812,822
Other assets	<u>3,475,848</u>	<u>3,530,161</u>	<u>3,054,421</u>
Total assets	<u>\$15,179,277</u>	<u>\$15,035,377</u>	<u>\$13,180,202</u>
Liabilities			
Current liabilities	\$ 460,363	\$ 53,014	\$ 222,225
Long-term liabilities	<u>252,227</u>	<u>306,953</u>	<u></u>
Total liabilities	<u>\$ 712,590</u>	<u>\$ 359,967</u>	<u>\$ 222,225</u>
Net position	<u>\$14,466,687</u>	<u>\$14,675,410</u>	<u>\$12,957,977</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 \$54,313 and increased by \$475,740 and \$596,655 during the years ended July 31, 2017, 2016, and 2015, 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 \$422,530, \$425,028, and \$422,050 to the County during the 2017, 2016, and 2015 fiscal years, respectively, to pay principal and interest due on the bonds.

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2017 and 2016

The net position of the County Hospital Board decreased by \$208,723 or 1.42 percent during the 2017 fiscal year and increased by \$1,717,433 or 13.25 percent during the 2016 fiscal year.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$ 3,827,172	\$ 4,018,991	\$ 3,242,195
Assets limited as to use	429,966	298,780	335,643
Capital assets, net	<u>808,953</u>	<u>701,343</u>	<u>1,018,960</u>
Total assets	<u>\$ 5,066,091</u>	<u>\$ 5,019,114</u>	<u>\$ 4,596,798</u>
Liabilities			
Current liabilities	\$ 1,140,944	\$ 1,269,590	\$ 1,298,261
Long-term obligations	411,499	181,563	244,116
Due to lessor	<u>3,475,848</u>	<u>3,530,161</u>	<u>3,054,421</u>
Total liabilities	<u>\$ 5,028,291</u>	<u>\$ 4,981,314</u>	<u>\$ 4,596,798</u>
Net position	<u>\$ 37,800</u>	<u>\$ 37,800</u>	<u>\$ -</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, 2026. 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 \$54,313 or 1.52 percent during the 2017 fiscal year and increased by \$513,540 or 16.81 percent during the 2016 fiscal year.

RUSSELL REGIONAL HOSPITAL BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2017 and 2016

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>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 3,390	\$ 3,014	\$ 6,477
Operating expenses	<u>963,126</u>	<u>942,614</u>	<u>808,721</u>
Operating loss	(959,736)	(939,600)	(802,244)
Property taxes	523,659	582,665	769,701
Sales taxes	469,686	498,259	594,400
Other nonoperating revenue, net	10,185	18,451	51,692
Capital grants and contributions	560,941	1,746,522	1,026,446
Transfers to WCKA	(336,615)	(239,576)	(479,340)
Transfers to Russell County	(422,530)	(425,028)	(422,050)
Change in obligation of lessee to lessor	<u>(54,313)</u>	<u>475,740</u>	<u>596,555</u>
Change in net position	<u>\$ (208,723)</u>	<u>\$ 1,717,433</u>	<u>\$ 1,335,160</u>

Operating expenses consist primarily of depreciation on capital assets; \$760,185, \$659,995, and \$506,053 during each of the years ended July 31, 2017, 2016, and 2015, respectively.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$15,998,529	\$16,271,053	\$15,543,400
Operating expenses	<u>16,519,538</u>	<u>16,044,403</u>	<u>15,412,133</u>
Operating income	(521,009)	226,650	131,267
Other nonoperating revenue, net	130,081	47,314	(14,052)
Transfers from County Hospital Board	<u>336,615</u>	<u>239,576</u>	<u>479,340</u>
Change in net position	<u>\$ (54,313)</u>	<u>\$ 513,540</u>	<u>\$ 596,555</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.

RUSSELL REGIONAL HOSPITAL BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended July 31, 2017 and 2016

WCKA reported an operating loss during 2017 and operating income during the 2016 and 2015 fiscal years. Operating income decreased by \$747,659 and increased by \$95,383 during the 2017 and 2016 fiscal years, respectively. Comparability of operating results is impacted by participation in the 340(b) drug program. 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. WCKA recognized \$1,822,245 in revenue and incurred \$1,414,659 in expenses related to the 340(b) drug program during the 2016 fiscal year. Without participation in the 340(b) drug program, WCKA would have sustained operating losses of \$931,719 and \$180,936 for the 2017 and 2016 fiscal years, respectively.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Inpatient services	\$ 4,737,143	\$ 5,240,880	\$ 5,302,209
Outpatient services	14,794,831	13,628,106	13,218,978
Physician services	<u>2,926,613</u>	<u>2,889,819</u>	<u>2,605,804</u>
Gross patient service revenue	22,458,587	21,758,805	21,126,991
Contractual adjustments	(7,614,015)	(7,117,376)	(7,073,965)
Medicaid disproportionate share payments	260,212	273,488	273,488
Provision for bad debts	(711,311)	(616,896)	(669,294)
Charity care	<u>(189,711)</u>	<u>(126,165)</u>	<u>(108,380)</u>
Net patient service revenue	<u>\$14,203,762</u>	<u>\$14,171,856</u>	<u>\$13,548,840</u>

WCKA did not raise its charge rates during the 2017, 2016, or 2015 fiscal years. 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 decreased by 9.6 percent during the 2017 fiscal year, decreased 1.2 percent during the 2016 fiscal year, and increased 11.7 percent during the 2015 fiscal year. Total patient days (acute and swing-bed combined), decreased by 6.4 and 11.5 percent during the fiscal years 2017 and 2016, respectively, and increased by 15.1 percent during fiscal year 2015. 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 8.6, 3.1, and 3.6 percent during the 2017, 2016, and 2015 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, 2017 and 2016

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 33.9 percent, 32.7 percent, and 33.5 percent during the 2017, 2016, and 2015 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.



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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, 2017 and 2016, 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, 2017 and 2016, 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, 2018

FINANCIAL STATEMENTS

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
STATEMENTS OF NET POSITION
July 31,

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT ASSETS				
Cash	\$ 430,510	\$ 1,617,471	\$ 438,875	\$ 1,143,022
Patient accounts receivable, less allowance for uncollectible accounts of \$640,635 in 2017 and \$657,348 in 2016		1,687,003		1,718,981
Other receivables		113,481		238,545
Estimated third-party payor settlements		1,195		530,651
Sales tax receivable	98,000		98,000	
Inventories		284,777		284,302
Prepaid expenses	2,180	123,245	2,345	103,490
Total current assets	530,690	3,827,172	539,220	4,018,991
ASSETS LIMITED AS TO USE				
Internally designated				
For capital assets	1,602,456		1,563,524	
For employee benefits		392,166		260,980
By contributors and grantors				
For specific operating activities		37,800		37,800
For capital assets	2,674,881		3,480,559	
Principal of permanent endowments	296,921		296,921	
Total assets limited as to use	4,574,258	429,966	5,341,004	298,780
CAPITAL ASSETS, NET	6,598,481	808,953	5,624,992	701,343
OTHER ASSETS				
Due from lessee	3,475,848		3,530,161	
Total assets	\$15,179,277	\$ 5,066,091	\$15,035,377	\$ 5,019,114

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
CURRENT LIABILITIES				
Current portion of notes payable to banks	\$ 54,783	\$ 13,939	\$ 53,014	\$ 8,420
Current portion of capital lease obligations		92,122		99,589
Accounts payable	405,580	213,516		326,199
Estimated third-party payor settlements		90,581		45,581
Accrued salaries and benefits		415,239		475,264
Accrued compensated absences		314,655		314,537
Accrued interest		892		
Total current liabilities	460,363	1,140,944	53,014	1,269,590
CAPITAL LEASE OBLIGATIONS, less current portion		400,903		181,563
NOTES PAYABLE TO BANKS, less current portion	252,227	10,596	306,953	
DUE TO LESSOR		3,475,848		3,530,161
Total liabilities	712,590	5,028,291	359,967	4,981,314
NET POSITION				
Invested in capital assets net of related debt	6,291,471		5,265,025	
Restricted				
Expendable for specific operating activities		37,800		37,800
Expendable for capital acquisitions	2,674,881		3,480,559	
Nonexpendable permanent endowments	296,921		296,921	
Unrestricted	5,203,414		5,632,905	
Total net position	14,466,687	37,800	14,675,410	37,800
Total liabilities and net position	\$15,179,277	\$ 5,066,091	\$15,035,377	\$ 5,019,114

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

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
Operating revenues				
Net patient service revenue	\$ -	\$14,203,762	\$ -	\$14,171,856
Other revenue	3,390	1,794,767	3,014	2,099,197
Total operating revenues	3,390	15,998,529	3,014	16,271,053
Operating expenses				
Salaries and wages		9,075,827		8,334,451
Employee benefits		1,679,732		1,583,249
Purchased services, supplies, and other	202,941	5,520,457	282,619	5,750,771
Depreciation and amortization	760,185	243,522	659,995	375,932
Total operating expenses	963,126	16,519,538	942,614	16,044,403
Operating income (loss)	(959,736)	(521,009)	(939,600)	226,650
Nonoperating revenues (expenses)				
Property taxes	523,659		582,665	
Sales taxes	469,686		498,259	
Investment income	4,430		8,942	
Interest expense	(11,268)	(20,812)	(8,834)	(21,721)
Noncapital grants and contributions	17,023	150,893	18,343	65,990
Gain on disposal of capital assets				3,045
Total nonoperating revenues (expenses)	1,003,530	130,081	1,099,375	47,314
Excess of revenues over (under) expenses before capital grants and contributions and transfers	43,794	(390,928)	159,775	273,964
Capital grants and contributions	560,941		1,746,522	
Transfers				
Between Hospital Board and component unit	(336,615)	336,615	(239,576)	239,576
To Russell County	(422,530)		(425,028)	
Change in net position	(154,410)	(54,313)	1,241,693	513,540
Net position at beginning of year	14,675,410	37,800	12,957,977	
Change in obligation of lessee to lessor	(54,313)	54,313	475,740	(475,740)
Net position at end of year	\$14,466,687	\$ 37,800	\$14,675,410	\$ 37,800

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,

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ -	\$14,810,196	\$ -	\$13,362,423
Payments to or on behalf of employees		(10,946,652)		(9,765,624)
Payments for supplies and services	(201,738)	(5,660,276)	(269,291)	(5,749,692)
Other receipts and payments	3,390	1,919,831	3,014	1,988,936
Net cash provided (used) by operating activities	(198,348)	123,099	(266,277)	(163,957)
Cash flows from noncapital financing activities				
Tax levies	993,345		1,080,924	
Noncapital grants and contributions	17,023	150,893	18,343	65,990
Proceeds from notes payable to banks		69,350	399,597	57,839
Payments on notes payable to banks		(66,278)		(50,996)
Interest paid		(1,698)		(1,143)
Transfers	(336,615)	336,615	(239,576)	239,576
Net cash provided by noncapital financing activities	673,753	488,882	1,259,288	311,266
Cash flows from capital and related financing activities				
Acquisition of capital assets	(1,329,132)	(391,476)	(1,694,390)	(58,315)
Capital grants and contributions	808,658		2,368,672	
Proceeds from sale of capital assets				3,045
Proceeds from notes payable to banks		13,428		
Payments on notes payable to banks	(52,957)	(385)	(39,630)	
Interest paid	(11,268)	(18,222)	(8,834)	(20,578)
Capital lease obligations incurred		358,601		40,825
Payments on capital lease obligations		(99,478)		(278,197)
Transfers to Russell County	(422,530)		(425,028)	
Net cash provided (used) by capital and related financing activities	(1,007,229)	(137,532)	200,790	(313,220)

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,

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
Cash flows from investing activities				
Change in assets limited as to use	\$ 519,029	\$ -	\$ (1,067,057)	\$ -
Interest income received	<u>4,430</u>		<u>8,942</u>	
Net cash provided (used) by investing activities	<u>523,459</u>	<u>-</u>	<u>(1,058,115)</u>	<u>-</u>
Net change in cash and cash equivalents	(8,365)	474,449	135,686	(165,911)
Cash and cash equivalents at beginning of year	<u>438,875</u>	<u>1,143,022</u>	<u>303,189</u>	<u>1,308,933</u>
Cash and cash equivalents at end of year	<u>\$ 430,510</u>	<u>\$ 1,617,471</u>	<u>\$ 438,875</u>	<u>\$ 1,143,022</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (959,736)	\$ (521,009)	\$ (939,600)	\$ 226,650
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	760,185	243,522	659,995	375,932
Provision for bad debts		711,311		616,896
Changes in				
Patient accounts receivable		(679,333)		(991,569)
Estimated third-party payor settlements		574,456		(434,760)
Inventories and other current assets	165	104,834	13,328	(136,837)
Assets limited as to use		(131,186)		36,863
Accounts payable and accrued expenses	<u>1,038</u>	<u>(179,496)</u>		<u>142,868</u>
Net cash provided (used) by operating activities	<u>\$ (198,348)</u>	<u>\$ 123,099</u>	<u>\$ (266,277)</u>	<u>\$ (163,957)</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, 2017 and 2016

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, 2026. 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.

5. Cash and cash equivalents

The County Hospital Board considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

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

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.

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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

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

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. Costs incurred in connection with the issuance of long-term debt are amortized using the interest method over the term of the related debt.

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.

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.

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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

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, 2017, 2016, 2015, and 2014, 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, 2018, which is the date the financial statements were available to be issued.

18. Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

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.

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of gross and net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$22,458,587	\$21,758,805
Contractual adjustments	(7,614,015)	(7,117,376)
Medicaid disproportionate share payments	260,212	273,488
Charity care	<u>(189,711)</u>	<u>(126,165)</u>
Patient service revenue	14,915,073	14,788,752
Provision for bad debts	<u>(711,311)</u>	<u>(616,896)</u>
Net patient service revenue	<u>\$14,203,762</u>	<u>\$14,171,856</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>2017</u>	<u>2016</u>
Medicare	\$ 7,575,613	\$ 7,316,112
Medicaid	1,423,049	1,293,088
Blue Cross	3,065,629	3,030,710
Other third-party payors	1,538,220	1,848,877
Patients	<u>1,312,562</u>	<u>1,299,965</u>
Patient service revenue	<u>\$14,915,073</u>	<u>\$14,788,752</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 51 percent and 10 percent, respectively, of WCKA's net patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2017, and 49 percent and 9 percent, respectively, of WCKA's patient service revenue net of contractual adjustments and charity care during the year ended July 31, 2016. 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 \$124,000 and \$81,000 during the years ended July 31, 2017 and 2016, 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, 2017 and 2016

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

WCKA's allowance for uncollectible accounts on amounts due from patients was 79 percent and 75 percent of self-pay accounts receivable as of July 31, 2017 and 2016, respectively. WCKA's net bad debt write-offs were \$728,025 and \$462,262 for the years ended July 31, 2017 and 2016, respectively. WCKA did not change its charity care or uninsured discount policies during the years ended July 31, 2017 or 2016. 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, 2017, the carrying amounts of bank deposits, including certificates of deposit, were \$4,858,737 for the County Hospital Board and \$2,046,437 for WCKA. The bank balances for the two entities were \$4,890,565 and \$2,252,599, respectively. Of the County Hospital Board's bank balances, \$750,000 was covered by federal depository insurance and \$3,160,518 was covered by collateral held by a third-party bank but not registered in the name of the County Hospital Board and \$980,047 was unsecured and uncollateralized. Of WCKA's bank balances, \$510,957 was covered by federal depository insurance, \$1,524,298 was covered by collateral held by a third-party bank but not registered in the name of WCKA, and \$217,344 was unsecured and uncollateralized.

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

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
Unrestricted funds				
Cash and invested cash	\$ 430,510	\$1,616,471	\$ 438,875	\$1,142,022
Assets limited as to use				
Internally designated				
For capital assets	1,602,456		1,563,524	
For employee benefits		392,166		260,980
By contributors				
For specific operating activities		37,800		37,800
For capital assets	2,528,850		3,086,811	
Principal of permanent endowments	296,921		296,921	
Total bank deposits	<u>\$4,858,737</u>	<u>\$2,046,437</u>	<u>\$5,386,131</u>	<u>\$1,440,802</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE E - ASSETS LIMITED AS TO USE

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

	2017		2016	
	Hospital Board	Component unit	Hospital Board	Component unit
Internally designated				
For capital assets				
Cash	<u>\$1,602,456</u>	<u>\$ -</u>	<u>\$1,563,524</u>	<u>\$ -</u>
For employee benefits				
Cash	<u>\$ -</u>	<u>\$ 392,166</u>	<u>\$ -</u>	<u>\$ 260,980</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>\$2,528,850</u>	<u>\$ -</u>	<u>\$3,086,811</u>	<u>\$ -</u>
Contribution receivable	<u>146,031</u>	<u>-</u>	<u>393,748</u>	<u>-</u>
	<u>\$2,674,881</u>	<u>\$ -</u>	<u>\$3,480,559</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
July 31, 2017 and 2016

NOTE F - CAPITAL ASSETS

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

	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	14,531,563	318,028	-	14,849,591
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
	8,950,166	760,185	-	9,710,351
Construction in progress	43,595	1,415,646	-	1,459,241
Capital assets, net	<u>\$ 5,624,992</u>	<u>\$ 973,489</u>	<u>\$ -</u>	<u>\$ 6,598,481</u>

	2016			
	<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	10,857,464	1,214,498		12,071,962
Major movable equipment	1,972,069	487,195		2,459,264
Totals at historical cost	12,829,870	1,701,693	-	14,531,563
Less accumulated depreciation and amortization				
Buildings and fixed equipment	6,726,237	490,399		7,216,636
Major movable equipment	1,563,934	169,596		1,733,530
	8,290,171	659,995	-	8,950,166
Construction in progress	273,123	(229,528)	-	43,595
Capital assets, net	<u>\$ 4,812,822</u>	<u>\$ 812,170</u>	<u>\$ -</u>	<u>\$ 5,624,992</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE F - CAPITAL ASSETS - Continued

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

	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>6,907</u>		<u>6,907</u>
Capital assets, net	<u>\$ 701,343</u>	<u>\$ 147,953</u>	<u>\$ 47,250</u>	<u>\$ 808,953</u>

	2016			
	<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>3,048,026</u>	<u>58,315</u>	<u>211,333</u>	<u>2,895,008</u>
Totals at historical cost	<u>4,237,705</u>	<u>58,315</u>	<u>211,333</u>	<u>4,084,687</u>
Less accumulated depreciation and amortization				
Land improvements	89,096	25,455		114,551
Fixed equipment	772,750	145,544		918,294
Major movable equipment	<u>2,356,899</u>	<u>204,933</u>	<u>211,333</u>	<u>2,350,499</u>
	<u>3,218,745</u>	<u>375,932</u>	<u>211,333</u>	<u>3,383,344</u>
Capital assets, net	<u>\$ 1,018,960</u>	<u>\$ (317,617)</u>	<u>\$ -</u>	<u>\$ 701,343</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE F - CAPITAL ASSETS - Continued

The County Hospital Board's construction in progress consists of architect fees and construction costs incurred for a clinic building addition. The County Hospital Board has outstanding commitments for this project of approximately \$1,149,000 at July 31, 2017.

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 \$422,530 and \$425,028 to the County during 2017 and 2016, 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, 2017. 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE G - EMPLOYEE HEALTH INSURANCE - Continued

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

	<u>2017</u>	<u>2016</u>
Estimated net health insurance claims payable at beginning of year	\$ 8,379	\$ 112,000
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	869,155	825,776
Participant contributions	465,629	408,190
Payments made for claims and related expenses	<u>(1,280,901)</u>	<u>(1,337,587)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 62,262</u>	<u>\$ 8,379</u>
Estimated health insurance claims payable at end of year (included in accrued salaries, wages, and benefits)	\$ 102,000	\$ 90,000
Reinsurance proceeds recoverable (included in other receivables)	<u>(39,738)</u>	<u>(81,621)</u>
	<u>\$ 62,262</u>	<u>\$ 8,379</u>

NOTE H - NOTES PAYABLE TO BANKS

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

	<u>2017</u>	<u>2016</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	\$ 307,010	\$ 359,967
Less current portion of note payable to bank	<u>54,783</u>	<u>53,014</u>
Note payable to bank, less current portion	<u>\$ 252,227</u>	<u>\$ 306,953</u>

RUSSELL REGIONAL HOSPITAL BOARD
D/B/A RUSSELL REGIONAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE H - NOTES PAYABLE TO BANKS - Continued

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

	<u>2017</u>	<u>2016</u>
Outstanding at beginning of year	\$ 359,967	\$ -
Obligations incurred		399,597
Principal payments	<u>(52,957)</u>	<u>(39,630)</u>
Outstanding at end of year	<u>\$ 307,010</u>	<u>\$ 359,967</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 54,783	\$ 9,443	\$ 64,226
2019	56,610	7,616	64,226
2020	58,484	5,742	64,226
2021	60,450	3,776	64,226
2022	62,466	760	63,226
2023	<u>14,217</u>	<u>117</u>	<u>14,334</u>
Total minimum lease payments	<u>\$ 307,010</u>	<u>\$ 27,454</u>	<u>\$ 334,464</u>

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

	<u>2017</u>	<u>2016</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	\$ 8,420
5.00% note payable to Southwind Bank, original amount of \$13,428, payable in monthly installments, including interest through May 14, 2022, collateralized by a vehicle with an amortized cost of \$14,565	<u>13,043</u>	<u> </u>
	24,535	8,420
Less current portion of notes payable to bank	<u>13,939</u>	<u>8,420</u>
Notes payable to bank, less current portion	<u>\$ 10,596</u>	<u>\$ -</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE H - NOTES PAYABLE TO BANKS - Continued

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

	<u>2017</u>	<u>2016</u>
Outstanding at beginning of year	\$ 8,420	\$ 1,577
Obligations incurred	82,778	57,839
Principal payments	<u>(66,663)</u>	<u>(50,996)</u>
Outstanding at end of year	<u>\$ 24,535</u>	<u>\$ 8,420</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 13,939	\$ 685	\$ 14,624
2019	2,573	471	3,044
2020	2,704	340	3,044
2021	2,842	202	3,044
2022	<u>2,477</u>	<u>60</u>	<u>2,537</u>
Total minimum lease payments	<u>\$ 24,535</u>	<u>\$ 1,758</u>	<u>\$ 26,293</u>

NOTE I - CAPITAL LEASE OBLIGATIONS

Capital lease obligations for WCKA are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital lease obligations, imputed interest rates of 3.2% to 7.7%, collateralized by leased equipment with an amortized cost of \$512,492	\$ 493,025	\$ 281,152
Less current portion of capital lease obligations	<u>92,122</u>	<u>99,589</u>
Capital lease obligations, less current portion	<u>\$ 400,903</u>	<u>\$ 181,563</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

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>
2018	\$ 92,122	\$ 17,985	\$ 110,107
2019	81,363	13,937	95,300
2020	74,769	10,355	85,124
2021	59,206	7,021	66,227
2022	40,563	5,367	45,930
Thereafter	<u>145,002</u>	<u>8,096</u>	<u>153,098</u>
Total minimum lease payments	<u>\$ 493,025</u>	<u>\$ 62,761</u>	<u>\$ 555,786</u>

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

	<u>2017</u>	<u>2016</u>
Outstanding at beginning of year	\$ 281,152	\$ 518,524
Obligations incurred	358,601	40,825
Principal payments	<u>(146,728)</u>	<u>(278,197)</u>
Outstanding at end of year	<u>\$ 493,025</u>	<u>\$ 281,152</u>

NOTE J - INTEREST EXPENSE

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

	<u>2017</u>		<u>2016</u>	
	<u>Hospital Board</u>	<u>Component unit</u>	<u>Hospital Board</u>	<u>Component unit</u>
Total interest incurred	\$ 11,268	\$ 20,812	\$ 8,834	\$ 21,721
Interest expense	<u>\$ 11,268</u>	<u>\$ 20,812</u>	<u>\$ 8,834</u>	<u>\$ 21,721</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 \$336,615 and \$239,576 to WCKA during the years ended July 31, 2017 and 2016, respectively.

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE L - OPERATING LEASES

WCKA leases property and equipment from the County Hospital Board under a lease agreement expiring on July 31, 2026. 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. Rental expense for all operating leases consisted of the following:

	<u>2017</u>	<u>2016</u>
Minimum rentals due under leases expiring in more than one year	\$ -	\$ 3,939
Other rents	<u>26,694</u>	<u>20,916</u>
	<u>\$ 26,694</u>	<u>\$ 24,855</u>

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, 2017, were approximately \$414,109, which consisted of \$96,881 from WCKA and \$317,229 from employees. Contributions to the Plan for the year ended July 31, 2016, were approximately \$368,676, which consisted of \$83,205 from WCKA and \$285,471 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>2017</u>	<u>2016</u>
Medicare	43.2%	33.6%
Medicaid	6.1	6.1
Blue Cross	12.8	13.7
Other insurance	11.2	18.4
Patients	<u>26.7</u>	<u>28.2</u>
	<u>100.0%</u>	<u>100.0%</u>

RUSSELL REGIONAL HOSPITAL BOARD
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2017 and 2016

NOTE O - RISK MANAGEMENT

For the year ended July 31, 2017, 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, 2018. 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, 2017, 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.

NOTE P - SUBSEQUENT EVENTS

During August 2017, WCKA entered into a financing agreement of approximately \$333,000 for the purchase of digital radiology equipment and remodeling of a radiology room. The agreement is for seven years, with monthly principal and interest payments of \$5,357.