

Coffey Health System
A Component Unit of Coffey County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2017 and 2016



Coffey Health System
A Component Unit of Coffey County, Kansas
December 31, 2017 and 2016

Contents

Independent Auditor's Report.....	1
--	----------

Financial Statements

Balance Sheets	3
Statements of Revenues, Expenses and Changes in Net Position.....	4
Statements of Cash Flows	5
Notes to Financial Statements.....	7

Supplementary Information

Schedules of Net Patient Service Revenues	19
Deductions from Revenue and Other Operating Revenue	20
Schedules of Operating Expenses.....	21
Schedules of Financial and Statistical Comparisons	23

Independent Auditor's Report

Board of Trustees
Coffey Health System
Burlington, Kansas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coffey Health System as of December 31, 2017 and 2016, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Coffey Health System's basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Wichita, Kansas
May 21, 2018

Coffey Health System
A Component Unit of Coffey County, Kansas
Balance Sheets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 101,981	\$ 1,034,314
Patient accounts receivable, net of allowance; 2017 - \$2,392,000, 2016 - \$2,430,000	3,628,032	2,762,168
Estimated amounts due from Medicare and Medicaid	250,000	222,428
Supplies	419,185	405,648
Prepaid expenses and other	<u>96,415</u>	<u>173,162</u>
Total current assets	4,495,613	4,597,720
Capital Assets, Net	<u>7,570,020</u>	<u>8,316,891</u>
Total assets	<u><u>\$ 12,065,633</u></u>	<u><u>\$ 12,914,611</u></u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 993,538	\$ 751,912
Accounts payable	1,181,551	534,466
Accrued expenses	1,489,025	1,432,230
Estimated amounts due to Medicare	<u>270,505</u>	<u>-</u>
Total current liabilities	3,934,619	2,718,608
Long-term Debt	<u>4,197,552</u>	<u>5,018,481</u>
Total liabilities	<u>8,132,171</u>	<u>7,737,089</u>
Net Position		
Net investment in capital assets	2,378,930	2,546,498
Unrestricted	<u>1,554,532</u>	<u>2,631,024</u>
Total net position	<u>3,933,462</u>	<u>5,177,522</u>
Total liabilities and net position	<u><u>\$ 12,065,633</u></u>	<u><u>\$ 12,914,611</u></u>

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

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$1,248,527, 2016 - \$1,210,300	\$ 21,034,291	\$ 21,489,279
Electronic health records incentive	-	113,829
Other	<u>380,261</u>	<u>462,309</u>
Total operating revenues	<u>21,414,552</u>	<u>22,065,417</u>
Operating Expenses		
Salaries and wages	13,749,007	13,544,133
Employee benefits	3,131,546	2,965,124
Purchased services and professional fees	1,744,935	1,630,906
Supplies and other	4,739,091	4,655,543
Depreciation	<u>1,328,531</u>	<u>1,396,590</u>
Total operating expenses	<u>24,693,110</u>	<u>24,192,296</u>
Operating Loss	<u>(3,278,558)</u>	<u>(2,126,879)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	2,035,070	1,977,383
Interest income	37,369	15,220
Interest expense	(86,623)	(104,430)
Gain (loss) on disposal of capital assets	3,800	(14,542)
Noncapital grants and gifts	<u>44,882</u>	<u>12,405</u>
Total nonoperating revenues, net	<u>2,034,498</u>	<u>1,886,036</u>
Decrease in Net Position	(1,244,060)	(240,843)
Net Position, Beginning of Year	<u>5,177,522</u>	<u>5,418,365</u>
Net Position, End of Year	<u><u>\$ 3,933,462</u></u>	<u><u>\$ 5,177,522</u></u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 20,411,360	\$ 21,395,360
Payments to suppliers and contractors	(5,773,731)	(6,967,388)
Payments to and on behalf of employees	(16,823,758)	(16,522,360)
Electronic health records incentive payments	-	113,829
Other receipts	<u>384,061</u>	<u>446,474</u>
Net cash used in operating activities	<u>(1,802,068)</u>	<u>(1,534,085)</u>
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	2,035,070	1,977,383
Noncapital grants and gifts	<u>44,882</u>	<u>12,405</u>
Net cash provided by noncapital financing activities	<u>2,079,952</u>	<u>1,989,788</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(698,225)	(591,198)
Interest paid on long-term debt	(86,623)	(104,430)
Purchase of capital assets	(462,738)	(589,137)
Proceeds from sale of capital assets	<u>-</u>	<u>1,293</u>
Net cash used in capital and related financing activities	<u>(1,247,586)</u>	<u>(1,283,472)</u>
Investing Activities		
Interest income received	<u>37,369</u>	<u>15,220</u>
Net cash provided by investing activities	<u>37,369</u>	<u>15,220</u>
Decrease in Cash	(932,333)	(812,549)
Cash, Beginning of Year	<u>1,034,314</u>	<u>1,846,863</u>
Cash, End of Year	<u><u>\$ 101,981</u></u>	<u><u>\$ 1,034,314</u></u>

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

	<u>2017</u>	<u>2016</u>
Reconciliation of Net Operating Loss to		
Net Cash Used in Operating Activities		
Operating loss	\$ (3,278,558)	\$ (2,126,879)
Depreciation	1,328,531	1,396,590
Changes in operating assets and liabilities		
Patient accounts receivable, net	(865,864)	(262,365)
Estimated amounts due from and to third-party payers	242,933	168,446
Accounts payable and accrued expenses	707,680	(791,797)
Supplies, prepaid expenses and other assets	<u>63,210</u>	<u>81,920</u>
Net cash used in operating activities	<u>\$ (1,802,068)</u>	<u>\$ (1,534,085)</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 118,922	\$ 61,797

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Coffey Health System (System) is an acute care hospital located in Burlington, Kansas. The System is a component unit of Coffey County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Coffey county area. It also operates a home health agency and long-term care and assisted living facilities in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Intergovernmental Revenue

The System received approximately 9% and 8% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2017 and 2016, respectively. One hundred percent of these funds were used to support operations in both years.

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

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

Capital Assets

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

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

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Compensated Absences

System policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the System is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

Charity Care

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

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Income Taxes

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

Foundation

The System is the beneficiary of Coffey Health Foundation (Foundation), a separate legal entity with its own board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the System and, thus, not reflected in the accompanying financial statements.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The System has completed the requirements under the Medicare and Medicaid programs and has recorded revenue of \$- and \$113,829 in the years ended December 31, 2017 and 2016, respectively.

Note 2: Net Patient Service Revenue

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

Medicare. Through July 10, 2017, the System was recognized as PPS. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. These

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services (skilled swing-bed) are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. Effective July 11, 2017, the System was recognized as a CAH, and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor.

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

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

Approximately 50% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The System's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At December 31, 2017 and 2016, respectively, \$0 and \$470,021 of the System's bank balances of \$172,955 and \$1,232,609 were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the System's name	\$ -	\$ 470,021

Summary of Carrying Values

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

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	\$ 100,521	\$ 1,032,904
Petty cash	1,460	1,410
	<u>\$ 101,981</u>	<u>\$ 1,034,314</u>
Included in the following balance sheet captions		
Cash	<u>\$ 101,981</u>	<u>\$ 1,034,314</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: Patient Accounts Receivable

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

	2017	2016
Medicare	\$ 1,455,565	\$ 1,049,423
Medicaid	338,908	347,599
Blue Cross	1,083,874	703,331
Other third-party payers	456,980	440,113
Patients	<u>2,684,705</u>	<u>2,651,702</u>
	6,020,032	5,192,168
Less allowance for uncollectible accounts	<u>2,392,000</u>	<u>2,430,000</u>
	<u><u>\$ 3,628,032</u></u>	<u><u>\$ 2,762,168</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017			
	Beginning Balance	Additions	Disposals	Transfers
Land	\$ 274,184	\$ -	\$ -	\$ -
Land improvements	986,917	-	-	-
Buildings	12,237,742	-	-	147,645
Fixed equipment	8,746,434	-	-	202,274
Major moveable equipment	13,703,707	57,614	(11,000)	197,165
Construction in progress	25,716	524,046	-	(547,084)
	<u>35,974,700</u>	<u>581,660</u>	<u>(11,000)</u>	<u>-</u>
	36,545,360			
Less accumulated depreciation				
Land improvements	923,927	14,832	-	-
Buildings	8,264,057	312,836	-	-
Fixed equipment	6,019,353	583,366	-	-
Major moveable equipment	12,450,472	417,497	(11,000)	-
	<u>27,657,809</u>	<u>1,328,531</u>	<u>(11,000)</u>	<u>-</u>
	28,975,340			
Capital Assets, Net	<u><u>\$ 8,316,891</u></u>	<u><u>\$ (746,871)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
	7,570,020			

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 274,184	\$ -	\$ -	\$ -	\$ 274,184
Land improvements	986,917	-	-	-	986,917
Buildings	11,933,329	304,413	-	-	12,237,742
Fixed equipment	8,483,305	238,603	-	24,526	8,746,434
Major moveable equipment	13,689,665	82,202	(76,356)	8,196	13,703,707
Construction in progress	32,722	25,716	-	(32,722)	25,716
	<u>35,400,122</u>	<u>650,934</u>	<u>(76,356)</u>	<u>-</u>	<u>35,974,700</u>
Less accumulated depreciation					
Land improvements	904,256	19,671	-	-	923,927
Buildings	7,948,605	315,452	-	-	8,264,057
Fixed equipment	5,428,509	590,844	-	-	6,019,353
Major moveable equipment	12,056,205	470,623	(76,356)	-	12,450,472
	<u>26,337,575</u>	<u>1,396,590</u>	<u>(76,356)</u>	<u>-</u>	<u>27,657,809</u>
Capital Assets, Net	<u>\$ 9,062,547</u>	<u>\$ (745,656)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,316,891</u>

Note 6: Medical Malpractice Coverage and Claims

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

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

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the System for the years ended December 31:

2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	\$ 400,000	\$ -	\$ 100,000	\$ 300,000	\$ 100,000
Note payable (B)	3,400,000	-	141,667	3,258,333	495,833
Capital lease obligations	1,970,393	118,922	456,558	1,632,757	397,705
	<u>\$ 5,770,393</u>	<u>\$ 118,922</u>	<u>\$ 698,225</u>	<u>\$ 5,191,090</u>	<u>\$ 993,538</u>
2016					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	\$ 600,000	\$ -	\$ 200,000	\$ 400,000	\$ 100,000
Note payable (B)	3,400,000	-	-	3,400,000	212,500
Capital lease obligations	2,299,794	61,797	391,198	1,970,393	439,412
	<u>\$ 6,299,794</u>	<u>\$ 61,797</u>	<u>\$ 591,198</u>	<u>\$ 5,770,393</u>	<u>\$ 751,912</u>

Note Payable (A)

The note payable to the Foundation is due February 10, 2020, with principal payable on due date and interest at 4.5% payable monthly. The note is secured by certain capital assets. The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 109,750	\$ 100,000	\$ 9,750
2019	105,250	100,000	5,250
2020	100,750	100,000	750
	<u>\$ 315,750</u>	<u>\$ 300,000</u>	<u>\$ 15,750</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note Payable (B)

The note payable to the County is due June 3, 2025, with principal payable annually beginning July 3, 2017; the loan is a 0% interest loan. The note is secured by certain capital assets. The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 495,833	\$ 495,833	\$ -
2019	425,000	425,000	-
2020	425,000	425,000	-
2021	425,000	425,000	-
2022	425,000	425,000	-
2023-2025	<u>1,062,500</u>	<u>1,062,500</u>	<u>-</u>
	<u>\$ 3,258,333</u>	<u>\$ 3,258,333</u>	<u>\$ -</u>

Capital Lease Obligations

The System is obligated under multiple leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2017 and 2016, totaled \$1,513,727 and \$1,813,863, respectively, net of accumulated depreciation of \$1,471,742 and \$1,250,666, respectively. The following is a schedule by year of future minimum lease payments under the capital lease obligations including interest at rates of 3.25% to 3.92% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	\$ 456,508
2019	191,876
2020	168,364
2021	160,484
2022	138,822
2023-2027	694,113
2028	<u>149,851</u>
Total minimum lease payments	1,960,018
Less amount representing interest	<u>327,261</u>
Present value of future minimum lease payments	<u>\$ 1,632,757</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 8: Employee Health Claims

Substantially all of the System's employees and their dependents are eligible to participate in the System's employee health insurance plan. For the first 10 months of 2016, the System was self-insured for health claims of participating employees and dependents up to an annual aggregate amount per covered employee of \$40,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$1,759,118. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the System's estimate will change by a material amount in the near term.

Effective November 1, 2016, the System converted to a fully insured plan. The provision for unpaid claims at December 31, 2016, is for claims incurred prior to conversion to the fully insured plan.

Activity in the System's accrued employee health claims liability during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 5,000	\$ 175,000
Current year claims incurred and changes in estimates for claims incurred in prior years	-	1,647,511
Claims paid	<u>(5,000)</u>	<u>(1,642,511)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 5,000</u>

Note 9: Pension Plan

The System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 3.5% and 7%, respectively, for both 2017 and 2016. Contributions actually made by plan members and the System aggregated \$505,403 and \$884,455 during 2017 and \$497,718 and \$871,007 during 2016, respectively.

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 10: Contingencies

Litigation

In the normal course of business, the System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the System's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. There were no accruals for expected losses at December 31, 2017. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Supplementary Information

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Net Patient Service Revenues
Years Ended December 31, 2017 and 2016

	2017		
	Inpatient	Outpatient	Total
Nursing Services			
Acute hospital	\$ 928,050	\$ 9,205	\$ 937,255
Swing-bed	134,140	-	134,140
Nursery	98,297	-	98,297
Long-term care	1,600,889	-	1,600,889
Assisted living	611,523	-	611,523
	<u>3,372,899</u>	<u>9,205</u>	<u>3,382,104</u>
Other Professional Services			
Operating room	1,109,140	3,678,916	4,788,056
Recovery room	21,200	370,152	391,352
Delivery room	246,556	32,055	278,611
Anesthesiology	175,510	639,120	814,630
Radiology	346,076	5,382,971	5,729,047
Laboratory	351,824	3,872,196	4,224,020
Blood administration	12,485	20,349	32,834
Respiratory services	436,153	151,819	587,972
Physical therapy	110,651	795,427	906,078
Occupational therapy	97,908	214,487	312,395
Speech pathology	24,480	207,076	231,556
Electrocardiology	21,608	249,515	271,123
Central service	1,589	8,378	9,967
Pharmacy	1,015,507	2,998,234	4,013,741
Specialty clinics	3,606	1,328,495	1,332,101
Emergency room	113,385	3,156,790	3,270,175
Observation	47,679	437,047	484,726
Rural health clinic	-	5,399,953	5,399,953
Ambulance	-	1,277,328	1,277,328
Home health	-	325,512	325,512
Physician clinics	-	1,017,444	1,017,444
Lifeline	-	17,872	17,872
Senior care	-	33,051	33,051
	<u>4,135,357</u>	<u>31,614,187</u>	<u>35,749,544</u>
	<u>\$ 7,508,256</u>	<u>\$ 31,623,392</u>	<u>39,131,648</u>
Contractual Allowances, Charity Care and Provision for Uncollectible Accounts			<u>18,097,357</u>
Net Patient Service Revenue			<u>\$ 21,034,291</u>

2016		
Inpatient	Outpatient	Total
\$ 907,554	\$ 6,350	\$ 913,904
134,128	-	134,128
102,178	-	102,178
1,645,119	-	1,645,119
681,736	-	681,736
<u>3,470,715</u>	<u>6,350</u>	<u>3,477,065</u>
1,144,548	3,642,399	4,786,947
25,016	378,824	403,840
255,622	33,512	289,134
177,263	688,010	865,273
321,295	5,359,903	5,681,198
377,184	3,874,042	4,251,226
12,485	8,797	21,282
450,588	153,264	603,852
149,440	678,137	827,577
144,030	187,143	331,173
2,314	32,811	35,125
26,134	228,346	254,480
2,190	16,202	18,392
1,149,169	3,432,352	4,581,521
1,511	1,053,830	1,055,341
136,558	2,894,906	3,031,464
36,621	432,306	468,927
58	4,985,911	4,985,969
-	1,347,108	1,347,108
-	305,724	305,724
-	1,093,395	1,093,395
-	19,968	19,968
-	33,572	33,572
<u>4,412,026</u>	<u>30,880,462</u>	<u>35,292,488</u>
<u>\$ 7,882,741</u>	<u>\$ 30,886,812</u>	38,769,553
		<u>17,280,274</u>
		<u>\$ 21,489,279</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Deductions from Revenue and Other Operating Revenue
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Deductions from Revenue		
Medicare	\$ 9,282,750	\$ 8,871,098
Medicaid	1,509,601	1,374,715
Blue Cross	4,900,208	4,543,452
Other third-party payers	841,103	1,110,956
Charity care	84,886	-
Administrative adjustments	230,282	169,753
Provision for uncollectible accounts	<u>1,248,527</u>	<u>1,210,300</u>
	<u><u>\$ 18,097,357</u></u>	<u><u>\$ 17,280,274</u></u>
 Other Operating Revenue		
Mobile magnetic resonance imaging	\$ 83,525	\$ 166,725
Cafeteria	192,497	200,571
In-house catering	52,989	53,055
Education	150	235
Sale of medical records	15,857	15,267
Miscellaneous	<u>35,243</u>	<u>26,456</u>
	<u><u>\$ 380,261</u></u>	<u><u>\$ 462,309</u></u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses
Years Ended December 31, 2017 and 2016

	2017			2016		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Nursing service	\$ 661,333	\$ 74,722	\$ 736,055	\$ 732,594	\$ 100,000	\$ 832,594
Nursery	31,034	303	31,337	27,725	1,607	29,332
Long-term care	1,122,490	359,116	1,481,606	1,030,682	392,056	1,422,738
Assisted living	495,787	143,053	638,840	497,204	177,908	675,112
Nursing administration	97,359	441	97,800	93,938	327	94,265
	<u>2,408,003</u>	<u>577,635</u>	<u>2,985,638</u>	<u>2,382,143</u>	<u>671,898</u>	<u>3,054,041</u>
Other Professional Services						
Operating room	203,371	121,447	324,818	188,369	153,138	341,507
Recovery room	22,558	69	22,627	25,180	1	25,181
Delivery room	315,790	8,599	324,389	338,999	5,571	344,570
Anesthesiology	262,754	63,346	326,100	336,175	48,534	384,709
Radiology	518,191	694,749	1,212,940	582,897	553,258	1,136,155
Laboratory	391,442	517,395	908,837	337,895	601,875	939,770
Blood administration	-	29,556	29,556	-	20,179	20,179
Respiratory services	163,993	13,980	177,973	160,809	(15,626)	145,183
Physical therapy	243,684	16,862	260,546	238,594	17,063	255,657
Occupational therapy	137,104	1,907	139,011	131,496	1,816	133,312
Speech pathology	54,976	10,405	65,381	9,534	164	9,698
Electrocardiology	15,814	12	15,826	15,982	36	16,018
Central service	11,020	533,583	544,603	12,143	596,455	608,598
Pharmacy	179,051	688,789	867,840	176,211	731,772	907,983
Specialty clinics	86,408	28,050	114,458	90,642	26,982	117,624
Emergency room	843,965	95,098	939,063	826,581	132,782	959,363
Rural health clinic	3,606,634	751,860	4,358,494	3,529,494	665,090	4,194,584
Ambulance	813,643	92,337	905,980	748,626	72,463	821,089
Home health	260,415	37,338	297,753	250,105	65,827	315,932
Physician clinics	568,085	26,738	594,823	552,890	25,408	578,298
Lifeline	476	4,528	5,004	956	400	1,356
Senior care	10,218	-	10,218	13,625	381	14,006
Wolf Creek	24,082	5,548	29,630	45,321	(40,172)	5,149
	<u>8,733,674</u>	<u>3,742,196</u>	<u>12,475,870</u>	<u>8,612,524</u>	<u>3,663,397</u>	<u>12,275,921</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses (Continued)
Years Ended December 31, 2017 and 2016

	2017			2016		
	Salaries	Other	Total	Salaries	Other	Total
General Services						
Plant operation	\$ 207,845	\$ 374,980	\$ 582,825	\$ 167,631	\$ 318,229	\$ 485,860
Laundry	21,813	11,829	33,642	21,928	10,306	32,234
Housekeeping	155,430	28,793	184,223	150,140	25,337	175,477
Dietary	287,331	245,488	532,819	293,130	211,070	504,200
	<u>672,419</u>	<u>661,090</u>	<u>1,333,509</u>	<u>632,829</u>	<u>564,942</u>	<u>1,197,771</u>
Administration Services						
Administration and general	1,584,453	1,303,266	2,887,719	1,547,995	1,140,495	2,688,490
Medical records	255,490	119,154	374,644	285,372	172,737	458,109
Marketing	94,968	80,685	175,653	83,270	72,980	156,250
	<u>1,934,911</u>	<u>1,503,105</u>	<u>3,438,016</u>	<u>1,916,637</u>	<u>1,386,212</u>	<u>3,302,849</u>
Employee Benefits		<u>3,131,546</u>	<u>3,131,546</u>		<u>2,965,124</u>	<u>2,965,124</u>
Depreciation		<u>1,328,531</u>	<u>1,328,531</u>		<u>1,396,590</u>	<u>1,396,590</u>
	<u>\$ 13,749,007</u>	<u>\$ 10,944,103</u>	<u>\$ 24,693,110</u>	<u>\$ 13,544,133</u>	<u>\$ 10,648,163</u>	<u>\$ 24,192,296</u>

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Financial and Statistical Comparisons
Years Ended December 31,

	2017	2016	2015	2014	2013
Operating Revenues	\$ 21,414,552	\$ 22,065,417	\$ 22,786,061	\$ 20,850,676	\$ 21,694,300
Operating Expenses	<u>24,693,110</u>	<u>24,192,296</u>	<u>25,981,161</u>	<u>25,753,669</u>	<u>23,590,837</u>
Loss From Operations	<u>\$ (3,278,558)</u>	<u>\$ (2,126,879)</u>	<u>\$ (3,195,100)</u>	<u>\$ (4,902,993)</u>	<u>\$ (1,896,537)</u>
Total Salaries	<u>\$ 13,749,007</u>	<u>\$ 13,544,133</u>	<u>\$ 13,878,428</u>	<u>\$ 14,090,166</u>	<u>\$ 12,955,533</u>
Full-time Equivalents	<u>256.9</u>	<u>267.1</u>	<u>276.8</u>	<u>299.9</u>	<u>269.9</u>
Patient Days (Acute and Swing-bed)					
Medicare	1,110	1,335	1,614	1,842	1,881
Other	<u>628</u>	<u>538</u>	<u>678</u>	<u>468</u>	<u>668</u>
Total	<u>1,738</u>	<u>1,873</u>	<u>2,292</u>	<u>2,310</u>	<u>2,549</u>
Percent of Occupancy (Acute and Swing-bed)	<u>15.5</u>	<u>14.3</u>	<u>17.4</u>	<u>17.6</u>	<u>19.4</u>
Medicare Percent (Acute and Swing-bed)	<u>63.9</u>	<u>71.3</u>	<u>70.4</u>	<u>79.7</u>	<u>73.8</u>
Discharges (Acute and Swing-bed)					
Medicare	281	271	367	408	459
Other	<u>241</u>	<u>230</u>	<u>286</u>	<u>225</u>	<u>419</u>
Total	<u>522</u>	<u>501</u>	<u>653</u>	<u>633</u>	<u>878</u>
Average Length of Stay (Acute and Swing-bed)					
Medicare	4.0	4.9	4.4	4.5	4.1
Other	2.6	2.3	2.4	2.1	1.6
Overall	3.3	3.7	3.5	3.6	2.9