

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Independent Auditor's Report and Financial Statements
September 30, 2018 and 2017



Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
September 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Greenwood County Hospital
Eureka, Kansas

We have audited the accompanying financial statements of Greenwood County Hospital (Hospital), a component unit of Greenwood County, Kansas, and its discretely presented component unit, Greenwood County Healthcare Foundation, Inc. (Foundation), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greenwood County Hospital and of its discretely presented component unit as of September 30, 2018 and 2017, and the respective changes in financial position and where applicable, cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 15*, the Hospital has suffered recurring losses from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 15*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
June 17, 2019

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Balance Sheets
September 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 146,841	\$ 422,242
Patient accounts receivable, net of allowance; 2018 - \$2,407,900, 2017 - \$1,541,216	1,333,637	1,444,930
Sales taxes receivable	125,961	104,064
Estimated amounts due from third-party payers	-	44,000
Supplies	126,133	130,957
Prepaid expenses and other	62,246	64,644
Total current assets	1,794,818	2,210,837
Capital Assets, Net	1,202,749	1,257,133
Other Assets		
Loans to nurses, net of allowance; 2018 - \$26,850, 2017 - \$28,000	2,441	7,587
	2,441	7,587
Total assets	\$ 3,000,008	\$ 3,475,557
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 165,878	\$ 178,646
Accounts payable	1,006,220	1,020,872
Accrued expenses	804,358	801,921
Estimated amounts due to third-party payers	232,000	78,000
Total current liabilities	2,208,456	2,079,439
Long-term Debt	165,339	238,065
Total liabilities	2,373,795	2,317,504
Net Position (Deficit)		
Net investment in capital assets	871,532	840,422
Unrestricted (deficit)	(245,319)	317,631
Total net position	626,213	1,158,053
Total liabilities and net position	\$ 3,000,008	\$ 3,475,557

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Greenwood County Healthcare Foundation, Inc.
Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets		
Cash	\$ 79,170	\$ 131,034
Short-term certificates of deposit	75,000	-
Total assets	\$ 154,170	\$ 131,034
 Net Assets	 \$ 154,170	 \$ 131,034

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$874,881, 2017 - \$753,801	\$ 10,082,022	\$ 9,362,804
340B drug pricing program	447,780	397,073
Other	124,208	136,954
Total operating revenues	10,654,010	9,896,831
Operating Expenses		
Salaries and wages	6,440,574	6,291,142
Employee benefits	1,566,813	1,386,797
Purchased services	1,477,503	1,159,410
Drugs	586,348	526,798
Medical and surgical supplies	424,524	415,854
Dues and subscriptions	22,428	27,645
Food	72,403	79,959
Insurance	101,709	101,795
Repairs and maintenance	56,464	36,312
Telephone	87,666	60,944
Utilities	139,829	151,718
Supplies and other	791,445	781,115
Depreciation	297,934	353,432
(Gain) loss on disposal of capital assets	(2,038)	172,732
Total operating expenses	12,063,602	11,545,653
Operating Loss	(1,409,592)	(1,648,822)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Greenwood County	170,407	183,785
Sales tax revenue	676,030	604,574
Interest income	148	177
Interest expense	(25,672)	(27,086)
Noncapital gifts	56,839	4,134
Total nonoperating revenues	877,752	765,584
Decrease in Net Position	(531,840)	(883,238)
Net Position, Beginning of Year	1,158,053	2,041,291
Net Position, End of Year	\$ 626,213	\$ 1,158,053

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Greenwood County Healthcare Foundation, Inc.
Statements of Activities
Years Ended September 30, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support		
Contributions	\$ 107,308	\$ 90,470
Total revenues, gains and other support	107,308	90,470
Expenses		
Support to Greenwood County Hospital	64,187	19,148
Management and general	17,890	1,519
Community support	2,095	-
Total expenses	84,172	20,667
Change in Net Assets	23,136	69,803
Net Assets, Beginning of Year	131,034	61,231
Net Assets, End of Year	\$ 154,170	\$ 131,034

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 10,391,315	\$ 10,303,205
Payments to suppliers and contractors	(3,802,643)	(3,522,648)
Payments to employees	(8,004,950)	(7,674,038)
Receipts from 340B drug pricing program	447,780	397,073
Other receipts, net	124,208	136,954
	<u>(844,290)</u>	<u>(359,454)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Noncapital appropriations - Greenwood County	170,407	183,785
Sales tax revenue	654,133	604,634
Noncapital gifts	56,839	4,134
	<u>881,379</u>	<u>792,553</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Proceeds from long-term debt	48,875	43,306
Principal paid on long-term debt	(233,368)	(220,930)
Interest paid on long-term debt	(25,672)	(27,086)
Purchases of capital assets	(102,473)	(8,661)
	<u>(312,638)</u>	<u>(213,371)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest income	148	177
	<u>148</u>	<u>177</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash	(275,401)	219,905
Cash, Beginning of Year	<u>422,242</u>	<u>202,337</u>
Cash, End of Year	<u>\$ 146,841</u>	<u>\$ 422,242</u>

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Statements of Cash Flows (Continued)
Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,409,592)	\$ (1,648,822)
Depreciation	297,934	353,432
(Gain) loss on disposal of capital assets	(2,038)	172,732
Provision for uncollectible accounts	874,881	753,801
Changes in operating assets and liabilities		
Patient accounts receivable, net	(763,588)	(289,400)
Estimated amounts due from and to third-party payers	198,000	476,000
Supplies	4,824	(9,742)
Prepaid expenses and other	2,398	2,537
Accounts payable and accrued expenses	(52,255)	(176,611)
Other assets	5,146	6,619
	<u>\$ (844,290)</u>	<u>\$ (359,454)</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 98,999	\$ -
Capital assets acquisitions included in accounts payable	\$ 40,040	\$ -

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2018 and 2017

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

Nature of Operations and Reporting Entity

Greenwood County Hospital (Hospital) is an acute care hospital located in Eureka, Kansas. The Hospital is a component unit of Greenwood County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Greenwood County area. It also operates a home health agency in the same geographic area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Noncapital Appropriations – Greenwood County and Sales Tax Revenue

The Hospital received approximately 7% of its financial support from the proceeds of noncapital appropriations from Greenwood County and sales taxes in 2018 and 2017, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by the County and shared with the Hospital for hospital operational purposes. Taxes are assessed by the County in November and are received beginning in January of each year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

Sales tax revenue is recognized based on sales taxes collected by the County's retailers in the Hospital's accounting period. The Hospital sales tax is 1% and is in place in perpetuity.

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Risk Management

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

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. The Hospital's capitalization policy is to capitalize assets acquired with a cost in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	8 – 15 years
Buildings and building improvements	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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Notes to Financial Statements
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Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended September 30, 2018 and 2017.

Compensated Absences

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

Net Position

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

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered 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.

Greenwood County Hospital
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Notes to Financial Statements
September 30, 2018 and 2017

Charity Care

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

Income Taxes

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

Foundation

Greenwood County Healthcare Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the Foundation's by-laws restrict its resources and related income to be used for the benefit of the Hospital. Because these resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the fiscal years ended September 30, 2018 and 2017, the Foundation provided \$64,187 and \$19,148 of support to the Hospital, respectively.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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

Greenwood County Hospital
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Centers for Medicare and Medicaid Services. 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 under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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

The Hospital recorded revenue under the EHR program of \$8,500 and \$27,094, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended September 30, 2018 and 2017, respectively.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2025.

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

Approximately 84% and 88% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Greenwood County Hospital
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Notes to Financial Statements
September 30, 2018 and 2017

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

Note 3: Deposits

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

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

At September 30, 2018 and 2017, respectively, \$0 and \$46,065 of the Hospital's bank balances of \$201,588 and \$545,100 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution's agent in other than the Hospital's name	\$ -	\$ 46,065

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 146,841	\$ 422,242
Included in the following balance sheet captions		
Cash	\$ 146,841	\$ 422,242

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A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

	2018	2017
Medicare	\$ 773,554	\$ 911,029
Medicaid	82,312	99,154
Blue Cross	106,718	112,705
Other third-party payers	474,382	364,686
Patients	<u>2,304,571</u>	<u>1,498,572</u>
	3,741,537	2,986,146
Less allowance for uncollectible accounts	<u>2,407,900</u>	<u>1,541,216</u>
	<u><u>\$ 1,333,637</u></u>	<u><u>\$ 1,444,930</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 26,835	\$ -	\$ -	\$ -	\$ 26,835
Land improvements	139,597	-	-	-	139,597
Buildings and building improvements	3,713,174	-	-	-	3,713,174
Fixed equipment	1,219,802	65,950	(11,543)	-	1,274,209
Major moveable equipment	5,686,028	137,560	-	-	5,823,588
Construction in progress	-	40,040	-	-	40,040
	<u>10,785,436</u>	<u>243,550</u>	<u>(11,543)</u>	<u>-</u>	<u>11,017,443</u>
Less accumulated depreciation					
Land improvements	114,554	9,885	-	-	124,439
Buildings and building improvements	2,948,280	128,490	-	-	3,076,770
Fixed equipment	1,151,792	18,269	(11,543)	-	1,158,518
Major moveable equipment	<u>5,313,677</u>	<u>141,290</u>	<u>-</u>	<u>-</u>	<u>5,454,967</u>
	<u>9,528,303</u>	<u>297,934</u>	<u>(11,543)</u>	<u>-</u>	<u>9,814,694</u>
Capital assets, net	<u><u>\$ 1,257,133</u></u>	<u><u>\$ (54,384)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,202,749</u></u>

Greenwood County Hospital
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	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 26,835	\$ -	\$ -	\$ -	\$ 26,835
Land improvements	139,597	-	-	-	139,597
Buildings and building improvements	3,713,174	-	-	-	3,713,174
Fixed equipment	1,219,802	-	-	-	1,219,802
Major moveable equipment	6,036,028	-	(350,000)	-	5,686,028
	<u>11,135,436</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>	<u>10,785,436</u>
Less accumulated depreciation					
Land improvements	104,416	10,138	-	-	114,554
Buildings and building improvements	2,812,929	135,351	-	-	2,948,280
Fixed equipment	1,136,376	15,416	-	-	1,151,792
Major moveable equipment	5,298,418	192,527	(177,268)	-	5,313,677
	<u>9,352,139</u>	<u>353,432</u>	<u>(177,268)</u>	<u>-</u>	<u>9,528,303</u>
Capital assets, net	<u>\$ 1,783,297</u>	<u>\$ (353,432)</u>	<u>\$ (172,732)</u>	<u>\$ -</u>	<u>\$ 1,257,133</u>

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

	2018	2017
Payable to suppliers and contractors	\$ 1,006,428	\$ 1,021,480
Payable to employees (including payroll taxes and benefits)	<u>804,150</u>	<u>801,313</u>
	<u>\$ 1,810,578</u>	<u>\$ 1,822,793</u>

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Notes to Financial Statements
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Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year on a fixed premium basis. 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 claims made coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,088,924 for the covered group or \$50,000 per covered member. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. 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 Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 62,742	\$ 83,844
Current year claims incurred and changes in estimates for claims incurred in prior years	840,342	670,977
Claims and expenses paid	<u>(842,083)</u>	<u>(692,079)</u>
Balance, end of year	<u>\$ 61,001</u>	<u>\$ 62,742</u>

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Notes to Financial Statements
September 30, 2018 and 2017

Note 9: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30:

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes payable to banks	\$ 140,980	\$ 48,875	\$ 136,118	\$ 53,737	\$ 53,737
Capital lease obligations	275,731	98,999	97,250	277,480	112,141
Total long-term debt	<u>\$ 416,711</u>	<u>\$ 147,874</u>	<u>\$ 233,368</u>	<u>\$ 331,217</u>	<u>\$ 165,878</u>
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes payable to banks	\$ 233,513	\$ 43,306	\$ 135,839	\$ 140,980	\$ 92,769
Capital lease obligations	360,822	-	85,091	275,731	85,877
Total long-term debt	<u>\$ 594,335</u>	<u>\$ 43,306</u>	<u>\$ 220,930</u>	<u>\$ 416,711</u>	<u>\$ 178,646</u>

Notes Payable to Banks

The notes payable to banks is due March 1, 2019, with principal payable annually and interest at 5.173% payable monthly. The note is secured by certain capital assets. The debt service requirements as of September 30, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	<u>\$ 54,500</u>	<u>\$ 53,737</u>	<u>\$ 763</u>

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Capital Lease Obligations

The Hospital is obligated under leases for equipment that is accounted for as capital leases. Assets under capital leases at September 30, 2018 and 2017, totaled \$271,646 and \$264,150, respectively, net of accumulated depreciation of \$270,920 and \$168,416, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 4.956% to 7.781% together with the present value of the future minimum lease payments as of September 30, 2018:

Year Ending December 31,		
2019	\$	130,455
2020		117,363
2021		49,589
2022		13,370
Total minimum lease payments		310,777
Less amount representing interest		33,297
Present value of future minimum lease payments	\$	277,480

Note 10: Pension Plans

The Hospital contributes to a mandatory 401(a) defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan 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 Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3% as of September 30, 2018. Contributions actually made by plan members and the Hospital aggregated \$188,422 and \$167,707 in 2018 and \$183,686 and \$156,929 in 2017, respectively.

The Hospital also offers a 457(b) deferred compensation plan which plan members may contribute voluntarily. The Hospital does not incur any expense into this plan, and the Hospital does not make contributions to this plan.

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Note 11: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$447,780 and \$397,073 for the years ending September 30, 2018 and 2017, respectively, which is included as its own line in operating revenues in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of \$304,835 and \$297,290 for the years ending September 30, 2018 and 2017, respectively, which is included in Drugs in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$8,658 and \$48,836 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 13: Management Agreement

The Board of Trustees has entered into a management agreement with Great Plains Health Alliance, Inc. The agreement can be cancelled with 60 days' notice. Fees incurred under this agreement were \$151,942 and \$145,663 in 2018 and 2017, respectively. There are \$154,540 and \$144,510 included in accounts payable related to these services at September 30, 2018 and 2017, respectively.

Note 14: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Note 15: Management's Consideration of Going Concern Matters

The Hospital has incurred losses and negative cash flows from operations for the past several years. Management is considering several alternatives for mitigating these conditions during the next year. These include evaluation of staffing patterns in the Hospital, wage freezes, modifications to pension plan contributions, modifications to the paid time off and bereavement policies, lower health insurance plan premiums, pursuit of additional tax support and adjustments of charge rates for services to meet market conditions.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern; however, the above conditions raise substantial doubt about the Hospital's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Hospital be unable to continue as a going concern.

Note 16: Future Change in Accounting Principle

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Note 17: Greenwood County Healthcare Foundation, Inc.

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for the support of health and health care programs for the Hospital.

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Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At September 30, 2018 and 2017, there were no net assets with donor restrictions.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, the Foundation had no cash equivalents.

Certificate of Deposit

The Foundation reports certificates of deposits at amortized cost.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

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Revenues, Gains and Other Support

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Related Entity

The Foundation works closely with the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees/Directors.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at both September 30, 2018 and 2017.

Change in Accounting Principle

In 2018, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

These changes had no impact on previously reported total change in net assets.