Goodland Regional Medical Center

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Goodland Regional Medical Center
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Goodland Regional Medical Center
Goodland, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Goodland Regional Medical Center, a component unit of Sherman County, Kansas (the Medical Center), and Goodland Medical Foundation (the Foundation) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Medical Center's and the Foundation'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Medical Center and of the Foundation, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year (December 31, 2016) Auditors' Report

The financial statements of the Medical Center, as of and for the year ended December 31, 2016, were audited by Wendling Noe Nelson & Johnson LLC, and whose report dated May 9, 2017, expressed a qualified opinion on those financial statements. The basis for qualified opinion was the 2016 financial statements did not include financial data of the Foundation, a component unit of the Medical Center based on the nature and significance of the relationship between the Medical Center and the Foundation. Although the Medical Center does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 19, 2018

Goodland Regional Medical Center
Statements of Net Position
December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		**2017**		**2016**
Current assets				
Cash and cash equivalents	**$**	**2,112,307**	$	783,931
Receivables:				
Patient accounts, net of estimated uncollectible accounts of $898,000 and $920,800, respectively		**1,948,521**		2,004,567
Estimated third-party payor settlements		**-**		292,100
Other		**250,201**		112,014
Inventories		**506,448**		448,919
Prepaid expenses		**216,905**		204,530
Total current assets		**5,034,382**		3,846,061
Noncurrent assets				
Assets limited as to use, cash and cash equivalents		**986,752**		856,941
Capital assets, net of accumulated depreciation		**2,591,946**		2,798,892
Total noncurrent assets		**3,578,698**		3,655,833
Deferred outflows of resources		**112,500**		125,000
Total assets and deferred outflows of resources	**$**	**8,725,580**	$	7,626,894

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES AND NET POSITION	**2017**	**2016**
Current liabilities		
Current portion of capital lease obligations	**$ 89,346**	$ 91,740
Accounts payable	**491,808**	478,528
Accrued compensation and related liabilities	**779,870**	725,729
Estimated third-party payor settlements	**822,000**	-
Total current liabilities	**2,183,024**	1,295,997
Noncurrent liabilities		
Capital lease obligations, less current portion	**191,751**	281,097
Total liabilities	**2,374,775**	1,577,094
Net position		
Net investment in capital assets	**2,310,849**	2,426,055
Unrestricted	**4,039,956**	3,623,745
Total net position	**6,350,805**	6,049,800
Total liabilities and net position	**$ 8,725,580**	$ 7,626,894

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Discretely Presented Component Unit – Goodland Medical Foundation
Statement of Financial Position
December 31, 2017

ASSETS		**2017**
Current assets		
Cash and cash equivalents	**$**	**231,892**
Land		**45,000**
Total current assets		**276,892**
Total assets	**$**	**276,892**

LIABILITIES AND NET ASSETS		**2017**
Current liabilities		
Accounts payable	**$**	**5,000**
Total current liabilities		**5,000**
Unrestricted net assets		**271,892**
Total liabilities and net assets	**$**	**276,892**

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of approximately $908,000 and $649,000, respectively	**$ 20,050,345**	$ 17,828,557
Grants	**8,112**	20,005
Other	**139,651**	187,723
Total operating revenues	**20,198,108**	18,036,285
Operating expenses		
Salaries and wages	**9,627,568**	8,962,510
Employee benefits	**1,966,309**	1,954,953
Professional fees	**2,677,798**	2,279,559
Supplies	**4,076,420**	3,776,712
Utilities	**313,919**	323,704
Insurance	**126,255**	132,194
Repairs and maintenance	**789,661**	548,055
Leases and rentals	**84,738**	67,445
Depreciation and amortization	**512,421**	595,964
Other	**493,949**	490,103
Total operating expenses	**20,669,038**	19,131,199
Operating loss	**(470,930)**	(1,094,914)
Nonoperating revenues (expenses)		
County appropriations	**554,328**	469,384
Interest income	**6,931**	4,747
Interest expense	**(6,574)**	(5,724)
Gain (loss) on disposal of capital assets	**55**	(10,111)
Contributions	**35,200**	9,721
Total nonoperating revenues (expenses), net	**589,940**	468,017
Excess of revenues over (under) expenses before capital grants and contributions	**119,010**	(626,897)
Capital grants and contributions	**181,995**	57,508
Change in net position	**301,005**	(569,389)
Net position, beginning of year	**6,049,800**	6,619,189
Net position, end of year	**$ 6,350,805**	$ 6,049,800

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Discretely Presented Component Unit – Goodland Medical Foundation
Statement of Activities
Year Ended December 31, 2017

		2017
Support and revenue		
Contributions	**$**	**8,051**
Investment income		**317**
Program income		**50**
Total support and revenue		**8,418**
Expenses		
Program services		**43,214**
Management and general		**10,884**
Total expenses		**54,098**
Change in net assets		**(45,680)**
Net assets, beginning of year		**317,572**
Net assets, end of year	**$**	**271,892**

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 21,082,413**	$ 17,138,501
Receipts from grants	**8,112**	20,005
Other receipts	**139,542**	201,729
Payments to and on behalf of employees	**(11,539,736)**	(10,803,758)
Payments to suppliers and contractors	**(8,606,864)**	(7,600,049)
Net cash provided by (used in) operating activities	**1,083,467**	(1,043,572)
Cash flows from noncapital financing activities		
Taxation for operations	**554,328**	469,384
Noncapital grants and contributions	**35,200**	9,721
Net cash provided by noncapital financing activities	**589,528**	479,105
Cash flows from capital and related financing activities		
Purchase of capital assets	**(305,475)**	(200,069)
Cash received from capital contributions	**181,995**	57,508
Payments on capital lease obligations	**(91,740)**	(65,410)
Proceeds from sale of capital assets	**55**	36
Interest paid	**(6,574)**	(5,724)
Net cash used in capital and related financing activities	**(221,739)**	(213,659)
Cash flows from investing activities, interest received	**6,931**	4,747
Net increase (decrease) in cash and cash equivalents	**1,458,187**	(773,379)
Cash and cash equivalents, beginning of year	**1,640,872**	2,414,251
Cash and cash equivalents, end of year	**$ 3,099,059**	$ 1,640,872

See accompanying notes to basic financial statements.

Goodland Regional Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	**$ 2,112,307**	$ 783,931
Assets limited as to use, cash and cash equivalents	**986,752**	856,941
Total cash and cash equivalents	**$ 3,099,059**	$ 1,640,872
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	**$ (470,930)**	$ (1,094,914)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	**512,421**	595,964
Amortization of deferred outflows of resources	**12,500**	-
Provision for bad debts	**908,020**	648,837
Decrease (increase):		
Patient accounts receivable	**(851,974)**	(1,015,881)
Estimated third-party payor settlements	**292,100**	(47,807)
Other receivables	**(138,187)**	14,006
Inventories	**(57,529)**	(43,837)
Prepaid expenses	**(12,375)**	(23,158)
Increase (decrease):		
Accounts payable	**13,280**	84,718
Accrued compensation and related liabilities	**54,141**	113,705
Estimated third-party payor settlements	**822,000**	(275,205)
Net cash provided by (used in) operating activities	**$ 1,083,467**	$ (1,043,572)

Noncash capital financing activities

During the year ended December 31, 2016, the Medical Center financed equipment in the amount of $365,846 through capital lease obligations.

See accompanying notes to basic financial statements.

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies:

a. Reporting Entity

Goodland Regional Medical Center (the Medical Center) is located in Goodland, Kansas, and operates a 25-bed critical access hospital. Additionally, the Medical Center operates a rural health clinic, several provider practices, a renal dialysis unit, and a home health agency. The Medical Center is owned by Sherman County, Kansas (the County), and is governed by a seven-member Board of Trustees appointed by the County Commissioners. The Medical Center is a component unit of the County.

b. The Foundation

The Goodland Medical Foundation (the Foundation) is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the Medical Center.

The Foundation's primary objective is to provide financial support for major additions and upgrades to the property, plant, and equipment at the Medical Center. The Foundation also provides educational support for staff members of the Medical Center for continuing education and to area graduating seniors who plan to enter a healthcare field with the possibility of returning to the Northwest Kansas area.

c. Summary of Significant Accounting Policies

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.

Enterprise fund accounting – The Medical Center's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less.

Inventories – Inventories are stated at cost using the first-in, first-out method or net realizable value. Inventories consist of pharmaceutical, acute care, surgery, and other supplies used in the Medical Center's operation.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense. Prepaid expenses include prepaid insurance, prepaid equipment maintenance expenses, and other expenses.

Assets limited as to use **–** Assets limited as to use include assets set aside by the Board of Trustees for specific purposes over which the Board retains control and could subsequently use for other purposes.

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Capital assets – The Medical Center capitalizes assets whose costs exceed $5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses are incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Useful lives have been estimated as follows:

Land improvements	7 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

Deferred outflows of resources – Deferred outflows of resources include the amount the Medical Center paid in excess of the fair value of a home health service.

Compensated absences – The Medical Center's policy is to permit employees to accumulate earned but unused time off up to a maximum of 208 to 304 hours, depending on years of service. The related liability is accrued during the period in which it is earned.

Net position – Net position of the Medical Center is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position.* The Medical Center did not have any restricted net position at December 31, 2017 or 2016.

Operating revenues and expenses – The Medical Center's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services — the Medical Center's principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Restricted resources – When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the Medical Center receives grants from the state of Kansas and other governmental and nongovernmental entities, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Grants and contributions (continued) – Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects, or purposes related to the Medical Center's operating activities, are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Income taxes – The Medical Center is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code. During the year ended December 31, 2017, the Foundation received notification its tax-exempt status had been revoked retroactive to 2012. The Foundation's application to the Internal Revenue Service for retroactive reinstatement of its tax-exempt status to the date it was revoked is still pending.

Reclassifications – Certain reclassifications have been made to the 2016 financial statements to conform to the classifications used in the 2017 financial statements, with no effect on previously reported change in net position.

Upcoming accounting standard pronouncements – In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, replacing the requirements of GASB Statement No. 45. The new guidance will be effective for the Medical Center's year ending December 31, 2018. GASB Statement No. 75 requires governmental entities to report a liability on the financial statement of other postemployment benefits (OPEB), and provides additional requirements for note disclosures and required supplementary information, including a schedule comparing a government entity's actual OPEB contributions to its contribution requirements. The Medical Center has not elected to implement this statement early; however, management is currently evaluating the impact of this statement in the year of adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the Medical Center's year ending December 31, 2019. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the Medical Center's year ending December 31, 2018, although earlier application is encouraged. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond issuance costs on any extinguished debt. The new guidance is effective for the Medical Center's year ending December 31, 2018, although earlier application is encouraged. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the Medical Center's year ending December 31, 2020, although earlier application is encouraged. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

1. Reporting Entity, the Foundation, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the Medical Center's year ending December 31, 2019, although earlier application is encouraged. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

Subsequent events – Subsequent events have been reviewed through June 19, 2018, the date on which the financial statements were available to be issued.

2. Bank Deposits:

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with market value equal to total deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or Kansas State Treasurer.

2. Bank Deposits (continued):

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Medical Center will not be able to recover the value of the deposits or investments that are in the possession of an outside party. All Medical Center deposits are entirely covered by the FDIC or by collateral held in multiple financial institution collateral pools, and all investments are insured, registered, or held by the Medical Center's agent in the Medical Center's name.

		2017		**2016**
Amount insured by the FDIC, or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	**$**	**2,716,821**	$	1,355,600
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)		**604,272**		663,414
	$	**3,321,093**	$	2,019,014

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The Medical Center does not have a policy specifically requiring or limiting investments of this type.

Concentration of credit risk – Concentration of credit risk is the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The Medical Center does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

3. Assets Limited as to Use by Board of Trustees:

Assets limited as to use by the Board of Trustees consist of assets to be used for replacement of capital assets or for the purchase of additional capital assets. The funds may be used for other purposes by action of the Board of Trustees. Assets limited as to use by the Board of Trustees consist of the following:

		2017		**2016**
Cash and cash equivalents	**$**	**986,752**	$	856,941

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Medical Center 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, the Medical Center 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 include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center 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.

The Medical Center's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year's. The Medical Center does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Medical Center consisted of these amounts:

	2017	**2016**
Receivables from patients and their insurance carriers	**$ 1,757,913**	$ 1,958,535
Receivables from Medicare	**955,679**	844,829
Receivables from Medicaid	**132,929**	122,003
Total patient accounts receivable	**2,846,521**	2,925,367
Less allowance for uncollectible accounts	**898,000**	920,800
Patient accounts receivable, net	**$ 1,948,521**	$ 2,004,567

5. Capital Assets:

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets not being depreciated					
Land	$ 61,287	$ -	$ -	$ -	**$ 61,287**
Construction in progress	-	25,089	-	-	**25,089**
Total capital assets not being depreciated	61,287	25,089	-	-	**86,376**
Capital assets being depreciated					
Land improvements	214,138	-	-	-	**214,138**
Building and improvements	3,695,074	8,617	-	-	**3,703,691**
Fixed equipment	2,010,917	59,140	-	-	**2,070,057**
Major movable equipment	8,541,315	228,811	(46,605)	-	**8,723,521**
Total capital assets being depreciated	14,461,444	296,568	(46,605)	-	**14,711,407**
Less accumulated depreciation for					
Land improvements	204,371	941	-	-	**205,312**
Building and improvements	3,049,452	73,910	-	-	**3,123,362**
Fixed equipment	1,150,230	86,346	-	-	**1,236,576**
Major movable equipment	7,319,786	351,224	(30,423)	-	**7,640,587**
Total accumulated depreciation	11,723,839	512,421	(30,423)	-	**12,205,837**
Total capital assets being depreciated, net	2,737,605	(215,853)	(16,182)	-	**2,505,570**
Capital assets, net	**$ 2,798,892**	**$ (190,764)**	**$ (16,182)**	**$ -**	**$ 2,591,946**

5. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Capital assets not being depreciated					
Land	$ 61,287	$ -	$ -	$ -	**$ 61,287**
Construction in progress	82,696	-	-	(82,696)	**-**
Total capital assets not being depreciated	143,983	-	-	(82,696)	**61,287**
Capital assets being depreciated					
Land improvements	214,138	-	-	-	**214,138**
Building and improvements	3,695,074	-	-	-	**3,695,074**
Fixed equipment	1,860,089	178,279	(27,451)	-	**2,010,917**
Major movable equipment	8,251,541	262,636	(55,558)	82,696	**8,541,315**
Total capital assets being depreciated	14,020,842	440,915	(83,009)	82,696	**14,461,444**
Less accumulated depreciation for					
Land improvements	203,429	942	-	-	**204,371**
Building and improvements	2,967,403	82,049	-	-	**3,049,452**
Fixed equipment	1,096,818	80,863	(27,451)	-	**1,150,230**
Major movable equipment	6,933,086	432,110	(45,410)	-	**7,319,786**
Total accumulated depreciation	11,200,736	595,964	(72,861)	-	**11,723,839**
Total capital assets being depreciated, net	2,820,106	(155,049)	(10,148)	82,696	**2,737,605**
Capital assets, net	**$ 2,964,089**	**$ (155,049)**	**$ (10,148)**	**$ -**	**$ 2,798,892**

6. Capital Lease Obligations:

A schedule of changes in the Medical Center's capital lease obligations follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
Capital lease obligations payable	$ 372,837	$ -	$ (91,740)	$ 281,097	**$ 89,346**

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
Capital lease obligations payable	$ 72,401	$ 365,846	$ (65,410)	$ 372,837	**$ 91,740**

The terms and due dates of the Medical Center's capital lease obligations are as follows: Capital lease obligations, at varying rates of imputed interest ranging from 1.79 percent to 2.27 percent, collateralized by the related equipment with maturity dates ranging from 2018 to 2021.

6. Capital Lease Obligations (continued):

The capital lease obligations are reflected in the Medical Center's assets and liabilities. The assets acquired under the capital leases had a capitalized cost of $428,779 as of December 31, 2017 and 2016, and accumulated amortization of $93,099 and $38,213 as of December 31, 2017 and 2016, respectively. Amortization expense is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

Scheduled principal and interest repayments on the Medical Center's capital lease obligations are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	$ 89,346	$ 4,891	**$ 94,237**
2019	82,861	3,182	**86,043**
2020	81,472	1,521	**82,993**
2021	27,418	189	**27,607**
	$ 281,097	**$ 9,783**	**$ 290,880**

7. Healthcare Self-insurance:

The Medical Center sponsors an employee benefit plan which provides partially self-insured employee and dependent health insurance benefits for which substantially all full-time employees of the Medical Center are eligible. The Medical Center has agreed to fund the plan for annual costs and expenses of the plan including costs of benefits and insurance premiums and to withhold and remit to the plan any required employee contributions.

The Medical Center has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over $50,000 for each covered individual on an annual basis. The reinsurance arrangement also provides annual aggregate claims coverage for the Medical Center. The Medical Center has appointed an independent third party to provide administrative services to the plan which include review and payment of claims.

	2017	2016
Claim liability, beginning of year	**$ 87,891**	$ 62,821
Provision for Medical Center's share of incurred claims and reinsurance expenses for the year, net of any reinsurance proceeds	**679,818**	836,816
Employee contributions	**260,815**	287,841
Payments made for claims and related expenses	**(1,013,099)**	(1,099,587)
Claim liability, end of year	**$ 15,425**	$ 87,891

8. Net Patient Service Revenue:

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts increased in 2017 due to an increase in self-pay revenues, including all patient coinsurance and deductibles. The Medical Center has not changed its charity care or uninsured discount policies during 2017 or 2016. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2017	**2016**
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 11,898,638**	$ 10,784,861
Medicaid	**447,537**	358,517
Other third-party payors	**5,913,931**	5,142,987
Patients	**826,131**	751,589
340B contract pharmacy	**1,651,805**	1,198,505
Disproportionate share hospital payments	**364,111**	367,864
	21,102,153	18,604,323
Less:		
Charity care	**143,788**	126,929
Provision for bad debts	**908,020**	648,837
Net patient service revenue	**$ 20,050,345**	$ 17,828,557

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The Medical Center has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The Medicare program's administrative procedures preclude final determination of amounts due to the Medical Center for such services until three years after the Medical Center's cost reports are audited or otherwise reviewed and settled upon by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule. Rural health clinic services are reimbursed based on the Medical Center's cost report.

8. Net Patient Service Revenue (continued):

- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates. The Medical Center also receives disproportionate share hospital (DSH) payments based on uncompensated care related to Medicaid and uninsured patients. Third-party contractual adjustments include approximately $364,000 and $368,000 of DSH payments received by the Medical Center for the years ended December 31, 2017 and 2016, respectively.
- *Other* – The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedule, and prospectively determined daily rates.

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. Net patient service revenue increased by approximately $62,000 in the year ended December 31, 2017, due to differences between original estimates and final settlements.

The Medical Center provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Medical Center's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Medical Center does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The Medical Center determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016, were $86,000 and $79,000, respectively. The Medical Center did not receive any gifts or grants to subsidize charity care services during 2017 or 2016.

9. County Appropriations:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on June 15 on property values listed as of the prior January 1. Assessed values are established by the County Assessor at 100 percent of fair market value.

Taxes are due in two equal installments on May 10 and December 20. Collections are distributed periodically to the Medical Center by the County Treasurer.

The County is permitted by law to levy up to $6.00 per $1,000 of assessed valuation for general Medical Center purposes. The Kansas State Constitution and Kansas State Law, K.S.A 19-4606, limit the rate. The County may also levy taxes at a lower rate. Further amounts of tax need to be authorized by a vote of the people.

The County's regular tax levy for the Medical Center was $5.998 and $5.992 per $1,000 on a total assessed valuation of $96,864,671 and $87,883,987, for a total regular levy of $581,174 and $526,601 in 2017 and 2016, respectively.

10. Defined Contribution Plans:

The Medical Center has a 401(a) retirement plan and a 457(b) deferred compensation plan covering substantially all of its employees meeting certain eligibility requirements. The 401(a) plan is an employer sponsored defined contribution plan whereby the Medical Center's contribution is based on the salaries of active participants in accordance with the formulas specified in the plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Goodland Regional Medical Center Employees' Pension Plan (the 401(a) Plan), any full-time employee who has attained age 21 and completed 12 months of service is eligible to participate in the plan. Contributions made by an employee vest immediately and contributions made by the Medical Center vest after five years of full-time employment. An employee who leaves the Medical Center's employment is entitled to his or her contributions and the Medical Center's contributions if vesting requirements are satisfied. As established by the plan, each participant must contribute two percent of his or her gross earnings to the pension plan and the Medical Center will contribute four percent of the employee's annual salary. Employees contributed approximately $137,000 and $118,000 for the years ended December 31, 2017 and 2016, respectively. The Medical Center contributed approximately $272,000 and $234,000 for the years ended December 31, 2017 and 2016, respectively.

As established by the Goodland Regional Medical Center Deferred Compensation Plan (the 457(b) Plan), any employee may become a participant by executing a participation agreement. Contributions made by an employee vest immediately. Employees contributed approximately $245,000 and $237,000 to the 457(b) Plan for the years ended December 31, 2017 and 2016, respectively.

The plans are administered by the Medical Center. The Medical Center established the plan provisions and has the authority to amend the plan provisions.

11. Contingencies:

Risk management – The Medical Center 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

11. Contingencies (continued):

Medical malpractice claims – The Medical Center has its professional liability insurance coverage with the Medical Protective Company (MedPro). The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the Medical Center purchases insurance to cover prior acts. The current professional liability insurance provides $200,000 per claim of primary coverage with an annual aggregate limit of $600,000. There is no deductible on this policy. The renewal date of the policy is February 15, 2019.

The Medical Center 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 the Medical Center 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.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

12. Stewardship, Compliance, and Accountability:

Per Kansas Statutes Annotated (K.S.A) 79-2935, the Medical Center's actual operating expenses may not exceed the approved operating expense budget. Per K.S.A 79-2929a, the Board of Trustees may approve an amended budget by December 31 of the budget year if actual operating expenses exceed the approved operating expense budget. The Medical Center's actual operating expenses exceeded the budgeted amount and the Board of Trustees did not amend the budget by December 31, 2017. For the year ended December 31, 2017, actual operating expenses were $20,669,038 versus budgeted operating expenses of $19,019,513.

Per K.S.A 79-1801 and K.S.A 79-2930, the Medical Center shall submit the adopted budget by August 25th of the year preceding the budget year. The Medical Center did not submit the 2017 fiscal year budget by August 25, 2016.

Per K.S.A 80-2509, Treasurer of the Board of Trustees, before entering upon the duties of office, shall give an official bond in an amount determined by the Board. For the year ended December 31, 2017, the Medical Center did not have an official bond in place.

13. Concentration of Risk:

Patient accounts receivable – The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Sherman County.

The mix of receivables from patients was as follows:

	2017	**2016**
Medicare	**44 %**	43 %
Medicaid	**7**	6
Other third-party payors	**28**	25
Patients	**21**	26
	100 %	100 %

Physicians – The Medical Center is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

14. Subsequent Events:

In January 2018, the Medical Center entered into a capital lease agreement for radiology equipment in the amount of $2,145,003. The lease commenced in January 2018 and expires in January 2026. The lease consists of monthly payments of $22,344 at an interest rate of 2.27 percent, with the first rental payment due in March 2018.

In June 2018, the Medical Center's Chief Financial Officer (CFO) retired. Subsequently, the Medical Center's Chief Executive Officer took on the CFO duties along with assistance from consultants. During the summer of fiscal year 2018, the retired CFO will assist the Medical Center with the monthly financial statement closing process.