

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



Kearny County Hospital
A Component Unit of Kearny County, Kansas
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Kearny County Hospital
Lakin, Kansas

We have audited the accompanying financial statements of Kearny County Hospital (the Hospital), a component unit of Kearny County, Kansas, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Kearny County 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kearny County Hospital as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Kearny County Health Care Foundation is no longer considered a component unit of Kearny County Hospital and is no longer included as a blended component unit in the Hospital's financial statements. Our opinion is not modified with respect to this matter.

Other Matters

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
December 6, 2018

Kearny County Hospital
A Component Unit of Kearny County, Kansas
Balance Sheets
June 30, 2018 and 2017

Assets

	2018	2017
		<i>(Restated)</i>
Current Assets		
Cash	\$ 255,800	\$ 43,912
Patient accounts receivable, net of allowance; 2018 - \$365,657; 2017 - \$367,306	2,741,235	2,347,358
Other receivables	425,412	230,775
Employee receivables	122,567	116,274
Supplies	499,599	364,185
Prepaid expenses and other	283,255	235,717
Total current assets	4,327,868	3,338,221
Noncurrent Cash and Investments		
Designated by board of trustees	757,810	186,905
Restricted by donors for capital acquisitions	-	535,258
	757,810	722,163
Capital Assets, Net	7,101,146	7,904,185
Other Assets		
Employee receivables	58,057	106,515
Total assets	\$ 12,244,881	\$ 12,071,084

Liabilities and Net Position

	2018	2017 <i>(Restated)</i>
Current Liabilities		
Notes payable to bank	\$ -	\$ 784,438
Current maturities of long-term debt	235,344	235,573
Accounts payable	683,639	542,156
Accrued payroll	393,724	300,894
Accrued vacation	247,793	293,213
Other accrued expenses	494,317	418,967
Estimated amounts due to third-party payers	675,939	265,000
Unearned revenue	192,535	161,436
	<hr/>	<hr/>
Total current liabilities	2,923,291	3,001,677
	<hr/>	<hr/>
Long-Term Debt	386,981	525,335
	<hr/>	<hr/>
Total liabilities	3,310,272	3,527,012
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	6,478,821	7,143,277
Restricted-expendable for		
Capital acquisitions	-	535,258
Unrestricted	2,455,788	865,537
	<hr/>	<hr/>
Total net position	8,934,609	8,544,072
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 12,244,881</u>	<u>\$ 12,071,084</u>

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

	2018	2017
		<i>(Restated)</i>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$1,182,083; 2017 - \$1,264,590	\$ 21,901,170	\$ 19,629,217
Other	3,658,037	1,985,818
Total operating revenues	25,559,207	21,615,035
Operating Expenses		
Salaries and wages	13,456,374	12,732,621
Employee benefits	3,402,991	3,272,965
Purchased services and professional fees	2,086,616	1,398,353
Other supplies and expenses	6,061,924	5,257,854
Depreciation	1,202,824	1,366,848
Total operating expenses	26,210,729	24,028,641
Operating Loss	(651,522)	(2,413,606)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Kearny County	662,712	694,552
Interest income	16,462	12,229
Interest expense	(60,781)	(65,167)
Loss on sale of capital assets	-	(25,030)
Noncapital grants and gifts	328,863	308,662
Total nonoperating revenues	947,256	925,246
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts and Impairment Gain, Net of Insurance Recoveries	295,734	(1,488,360)
Capital Grants and Gifts	94,803	525,829
Impairment Gain, Net of Insurance Recoveries	-	331,502
Increase (Decrease) in Net Position	390,537	(631,029)
Net Position, Beginning of Year, As Previously Reported	8,544,072	9,221,072
Restatement for Change in Reporting Entity (Note 1)		(45,971)
Net Position, Beginning of Year, As Restated		9,175,101
Net Position, End of Year	\$ 8,934,609	\$ 8,544,072

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

	2018	2017
		<i>(Restated)</i>
Operating Activities		
Receipts from and on behalf of patients	\$ 21,918,232	\$ 19,763,366
Payments to suppliers and contractors	(8,208,709)	(6,541,792)
Payments to employees	(16,578,341)	(16,064,227)
Other receipts, net	3,463,400	1,884,821
Net cash provided by (used in) operating activities	594,582	(957,832)
Noncapital Financing Activities		
Noncapital appropriations - Kearny County	662,712	694,552
Noncapital grants and gifts	328,863	308,662
Proceeds from issuance of notes payable to bank	10,326,177	11,368,847
Principal paid on notes payable to bank	(11,110,615)	(10,974,424)
Interest paid on notes payable to bank	(29,046)	(24,416)
Net cash provided by noncapital financing activities	178,091	1,373,221
Capital and Related Financing Activities		
Capital grants and gifts	94,803	525,829
Purchases of capital assets	(274,131)	(1,581,752)
Proceeds from sale of capital assets	-	2,753
Insurance proceeds received	-	1,241,011
Principal paid on long-term debt	(245,537)	(261,808)
Interest paid on long-term debt	(31,735)	(40,751)
Net cash used in capital and related financing activities	(456,600)	(114,718)
Investing Activities		
Interest income received	16,462	12,229
Change in certificates of deposit	(6,508)	(2,750)
Advances to employees	(85,000)	(202,722)
Net cash used in investing activities	(75,046)	(193,243)
Increase in Cash	241,027	107,428
Cash, Beginning of Year	230,817	123,389
Cash, End of Year	\$ 471,844	\$ 230,817

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

	2018	2017
		<i>(Restated)</i>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 255,800	\$ 43,912
Designated by board of trustees	216,044	186,905
	\$ 471,844	\$ 230,817
Reconciliation of Operating Loss to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (651,522)	\$ (2,413,606)
Depreciation	1,202,824	1,366,848
Provision for uncollectible accounts	1,182,083	1,264,590
Forgiveness of employee receivables	127,165	106,052
Changes in operating assets and liabilities		
Patient accounts receivable	(1,575,960)	(1,354,953)
Estimated amounts due from and to third-party payers	410,939	224,512
Other receivables	(194,637)	(100,997)
Supplies	(135,414)	(1,218)
Prepaid expenses and other	(47,538)	(29,093)
Accounts payable and accrued expenses	276,642	(19,967)
	\$ 594,582	\$ (957,832)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 106,954	\$ 56,789
Capital assets acquisitions included in accounts payable	\$ 18,700	\$ -
Loss on sale of capital assets	\$ -	\$ 25,030

Kearny County Hospital
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Notes to Financial Statements
June 30, 2018 and 2017

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

Nature of Operations and Reporting Entity

Kearny County Hospital (Hospital) is an acute care hospital located in Lakin, Kansas. The Hospital is a component unit of Kearny County (County), and governed by a Board of Trustees. The Board of County Commissioners appoints the members of the Board of Trustees. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, long-term care and rural health clinic services to patients in the Kearny County area. The Hospital is licensed as a critical access hospital (CAH).

Prior to July 1, 2017, Kearny County Health Care Foundation (Foundation) was a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function was to raise and hold funds to support the Hospital and its programs. The board of the Foundation was substantially the same as the Hospital Board of Trustees. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income was for the benefit of the Hospital. Because these resources held by the Foundation could only be used by, or for the benefit of, the Hospital, the Foundation was considered to be a component unit of the Hospital and was presented in the Hospital's financial statements using the blending method. The Foundation did not issue separate financial statements.

Effective July 1, 2017, the Foundation underwent a corporate restructuring. In doing so, the Foundation changed its name to the Kearny County Community Foundation (KCCF) and amended their articles of incorporation and restated their bylaws. KCCF is a legally separate, tax-exempt entity. KCCF's primary function is to raise and hold funds to support the entire Kearny County community. Because these resources held by KCCF are not required to be used for the sole benefit of the Hospital and no other criteria for inclusion in the reporting entity exist after the restructuring, KCCF is not considered to be a component unity of the Hospital and is not included in the Hospital's financial statements. As a result of the change in reporting entity, the 2017 financial statements have been restated, resulting in a \$50,564 increase in the decrease in the net position for 2017 and a reduction of beginning net position of \$45,971 as of July 1, 2016.

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Notes to Financial Statements
June 30, 2018 and 2017

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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as county appropriations, interest 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, liabilities and deferred inflows and outflows of resources 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents.

Noncapital Appropriations – Kearny County

The Hospital received approximately 2% and 3% in 2018 and 2017, respectively, of its financial support from proceeds of noncapital appropriations for property taxes.

Property taxes are levied by Kearny County in November of one year and are received beginning in January of the following year. Revenue from noncapital appropriations – Kearny County is recognized in full in the year in which use is first permitted.

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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. 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.

Noncurrent Investments

Noncurrent investments include assets consisting of certificates of deposit, which are carried at amortized cost. The Board of Trustees has designated these certificates of deposit for future capital acquisitions, which may at its discretion later use these designated certificates of deposit for other purposes.

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. 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	10 – 20 years
Buildings	5 – 40 years
Equipment	5 – 20 years

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The Hospital reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off that may be realized as paid time off or, in limited circumstances (*i.e.*, resignation), as a cash payment, up to the allowable maximum. Expense and the related liability are recognized as paid time off benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three 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. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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.

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.

Kearny County Hospital
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Notes to Financial Statements
June 30, 2018 and 2017

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 and a similar provision of state law.

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. CAHs are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. 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 has recognized the Medicare incentive payment revenue received for qualified EHR technology expenditures during the period which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of \$0 and \$4,767, which is included in net patient service revenue in the statement of revenues, expenses and changes in position as of the years ended June 30, 2018 and 2017, respectively.

Revisions

Certain immaterial revisions have been made to the 2017 statement of cash flows related to cash flows from note payable to bank, purchases of capital assets and insurance proceeds received. These revisions did not have a significant impact on the statement of cash flows line items impacted or subtotals.

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

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 for inpatient acute care, skilled, swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are adjusted twice annually on July 1 and January 1 for changes in the Medicaid resident case mix index (CMI) using the simple average of the CMI from the two preceding quarters. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid resident cash mix. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. Due to certain financial and clinical criteria, the Hospital also receives Medicaid Disproportionate Share (DSH) funding. DSH payments received were \$538,118 and \$521,808 in 2018 and 2017, respectively.

Approximately 54% and 53% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for years ended June 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.

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, discounts from established charges and prospectively determined daily rates.

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Notes to Financial Statements
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Note 3: Deposits

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 June 30, 2018 and 2017, \$777,119 and \$626,664 of the Hospital's bank balances of \$1,027,119 and \$876,664, respectively, were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution	<u>\$ 777,119</u>	<u>\$ 626,664</u> <i>(Restated)</i>

Summary of Carrying Values

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

	2018	2017
Carrying value		<i>(Restated)</i>
Deposits	\$ 471,844	\$ 230,817
Certificates of deposit	<u>541,766</u>	<u>535,258</u>
	<u>\$ 1,013,610</u>	<u>\$ 766,075</u>
Included in the following balance sheet captions		
Cash	\$ 255,800	\$ 43,912
Designated by board of trustees	757,810	186,905
Restricted by donors for capital acquisitions	<u>-</u>	<u>535,258</u>
	<u>\$ 1,013,610</u>	<u>\$ 766,075</u>

Kearny County Hospital
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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 June 30 consisted of:

	2018	2017
Medicare	\$ 802,035	\$ 483,840
Medicaid	463,907	469,179
Other third-party payers	721,860	895,871
Patients	<u>1,119,090</u>	<u>865,774</u>
	3,106,892	2,714,664
Less allowance for uncollectible accounts	<u>365,657</u>	<u>367,306</u>
	<u><u>\$ 2,741,235</u></u>	<u><u>\$ 2,347,358</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 97,298	\$ -	\$ -	\$ -	\$ 97,298
Land improvements	634,019	-	-	-	634,019
Buildings	18,277,369	-	-	-	18,277,369
Equipment	6,103,838	57,986	-	-	6,161,824
Construction in progress	-	341,799	-	-	341,799
	<u>25,112,524</u>	<u>399,785</u>	<u>-</u>	<u>-</u>	<u>25,512,309</u>
Less accumulated depreciation					
Land improvements	490,522	28,811	-	-	519,333
Buildings	12,358,466	684,436	-	-	13,042,902
Equipment	<u>4,359,351</u>	<u>489,577</u>	<u>-</u>	<u>-</u>	<u>4,848,928</u>
	<u>17,208,339</u>	<u>1,202,824</u>	<u>-</u>	<u>-</u>	<u>18,411,163</u>
Capital assets, net	<u><u>\$ 7,904,185</u></u>	<u><u>\$ (803,039)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,101,146</u></u>

Kearny County Hospital
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June 30, 2018 and 2017

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 97,298	\$ -	\$ -	\$ -	\$ 97,298
Land improvements	634,019	-	-	-	634,019
Buildings	17,739,029	-	(942,367)	1,480,707	18,277,369
Equipment	6,599,918	171,918	(671,914)	3,916	6,103,838
Construction in progress	18,000	1,466,623	-	(1,484,623)	-
	<u>25,088,264</u>	<u>1,638,541</u>	<u>(1,614,281)</u>	<u>-</u>	<u>25,112,524</u>
Less accumulated depreciation					
Land improvements	459,724	30,798	-	-	490,522
Buildings	11,605,806	758,798	(6,138)	-	12,358,466
Equipment	4,452,950	577,252	(670,851)	-	4,359,351
	<u>16,518,480</u>	<u>1,366,848</u>	<u>(676,989)</u>	<u>-</u>	<u>17,208,339</u>
Capital assets, net	<u>\$ 8,569,784</u>	<u>\$ 271,693</u>	<u>\$ (937,292)</u>	<u>\$ -</u>	<u>\$ 7,904,185</u>

During 2017, the Hospital sustained damages to certain areas of the Hospital as a result of a heating and cooling system leak. The Hospital evaluated its capital assets in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and realized a gain from impairment, net of insurance recoveries of \$331,502, which is included in the accompanying statements of revenues, expenses and changes in net position. The impairment of \$909,509 is included in the disposals column in the table above. Insurance proceeds were received in the amount of \$1,241,011.

Note 6: Employee Receivables

The Hospital has entered into loan agreements with certain employees in amounts ranging from \$500 to \$90,000. The loans are to be forgiven ratably over certain time periods following the employees' commencement of employment at the Hospital, by forgiving each installment as it becomes due. Notwithstanding the foregoing, the balances due and owing under the notes shall become immediately due and payable if the employees' terminate employment at the Hospital. As of June 30, 2018 and 2017, the balances of the loan receivables were \$180,624 and \$222,789, respectively. The Hospital forgave \$127,165 and \$106,052 of the loan receivables for the years ended June 30, 2018 and 2017, respectively.

Kearny County Hospital
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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. 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 \$300,000 of coverage for each medical incident and \$900,000 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 \$35,000. 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:

	2018	2017
Balance, beginning of year	\$ 182,620	\$ 182,620
Current year claims incurred and changes in estimates for claims incurred in prior years	1,878,066	1,854,148
Claims and expenses paid	(1,878,066)	(1,854,148)
	\$ 182,620	\$ 182,620

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Note 9: Notes Payable to Bank

The Hospital has a revolving line of credit agreement with a local bank. The maximum principal that can be borrowed is \$1,000,000, and the line of credit carries an interest rate of 4.5%. Interest is payable monthly. The line of credit is collateralized by patient accounts receivable. The line of credit expires March 2, 2019. Management intends to renew the line of credit on comparable terms at or near the maturity date and believes it is probable such renewal will be successful. The following is a summary of this revolving line of credit for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 284,438	\$ 390,015
Additions	10,326,177	10,868,847
Deductions	<u>(10,610,615)</u>	<u>(10,974,424)</u>
Ending balance	<u>\$ -</u>	<u>\$ 284,438</u>

The Hospital has a bulge line of credit agreement with a local bank. The maximum principal that can be borrowed is \$500,000, and the line of credit carries an interest rate of 4.5%. Interest is payable monthly. The line of credit is collateralized by patient accounts receivable. The line of credit expired on June 5, 2018. Management did not renew the line of credit. The following is a summary of this bulge line of credit for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 500,000	\$ -
Additions	-	500,000
Deductions	<u>(500,000)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ 500,000</u>

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Note 10: Long-Term Obligations

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 760,908	\$ 106,954	\$ 245,537	\$ 622,325	\$ 235,344
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	\$ 50,982	\$ -	\$ 50,982	\$ -	\$ -
Capital lease obligations	914,945	56,789	210,826	760,908	235,573
	<u>\$ 965,927</u>	<u>\$ 56,789</u>	<u>\$ 261,808</u>	<u>\$ 760,908</u>	<u>\$ 235,573</u>

Note Payable to Bank

The note payable to bank was originally due June 30, 2018, with principal payable monthly and interest at 3% payable monthly. The note is secured by certain capital assets. The Hospital made additional principal payments in 2016 and fully retired the obligation in 2017 prior to the stated maturity date.

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2018 and 2017, totaled \$1,192,848 and \$1,085,894, respectively, net of accumulated depreciation of \$613,019 and \$395,840, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 1.11% to 14.29% together with the present value of the future minimum lease payments as June 30, 2018:

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Year Ending June 30,		
2019	\$	258,335
2020		224,228
2021		137,181
2022		34,576
2023		<u>11,661</u>
Total minimum lease payments		665,981
Less amounts representing interest		<u>43,656</u>
		<u><u>\$ 622,325</u></u>

Note 11: Charity Care

The costs of charity care provided under the Hospital’s charity care policy were approximately \$101,000 and \$110,000 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 12: Pension Plan

The Hospital maintains a contributory defined contribution pension plan covering substantially all employees in lieu of social security. Prior to July 1, 1997, employees made contributions equal to 5% of their gross compensation. The Hospital contribution was 10% of the employees’ gross compensation for those employed for two years or more and 5% for all others. Effective July 1, 1997, employees are required to contribute the same percentage required under the Social Security laws (OASDI). The Hospital is required to make a matching contribution in the same amount. An additional 3% contribution is made by the Hospital on behalf of all employees continuously employed for three years or more. Voluntary employee contributions may be made up to a specified percent of eligible compensation as specified in the plan document. Employee and employer contributions vest immediately. Benefits are funded by an annuity contract with an insurance company. Contributions actually made by plan members and the Hospital aggregated \$788,180 and \$1,036,237 during 2018 and \$745,923 and \$991,825 during 2017, respectively.

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Note 13: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufactures on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$3,131,449 and \$1,641,817 for the years ended June 30, 2018 and 2017, respectively, which is included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of \$1,615,198 and \$399,362 for the years ended June 30, 2018 and 2017, respectively, which is included in supplies and other expenses in the accompanying statements of revenues, 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 this program 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 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. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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.