

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



Wichita County Health Center
A Component Unit of Wichita County, Kansas
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Wichita County Health Center
Leoti, Kansas

We have audited the accompanying financial statements of Wichita County Health Center, a component unit of Wichita County, Kansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Wichita County Health Center'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 Wichita County Health Center as of December 31, 2017 and 2016, 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.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
May 14, 2018

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Balance Sheets
December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 317,445 | \$ 326,399 |
| Patient accounts receivable, net of allowance; 2017 – \$26,238; 2016 – \$4,737 | 835,314 | 638,863 |
| Estimated amounts due from third-party payers | - | 66,850 |
| Other receivables | 158,298 | 158,675 |
| Supplies | 177,496 | 175,305 |
| Prepaid expenses and other | <u>15,838</u> | <u>3,372</u> |
| Total current assets | <u>1,504,391</u> | <u>1,369,464</u> |
| Capital Assets, Net | <u>2,015,693</u> | <u>1,944,271</u> |
| Total assets | <u><u>\$ 3,520,084</u></u> | <u><u>\$ 3,313,735</u></u> |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 136,717 | \$ 115,510 |
| Note payable to bank | 7,350 | 157,038 |
| Accounts payable | 523,844 | 600,655 |
| Accrued expenses | 494,326 | 484,838 |
| Estimated amounts due to third-party payers | <u>519,000</u> | <u>284,717</u> |
| Total current liabilities | 1,681,237 | 1,642,758 |
| Long-term Debt | <u>418,632</u> | <u>269,563</u> |
| Total liabilities | <u>2,099,869</u> | <u>1,912,321</u> |
| Net Position | | |
| Net investment in capital assets | 1,452,994 | 1,552,210 |
| Unrestricted | <u>(32,779)</u> | <u>(150,796)</u> |
| Total net position | <u>1,420,215</u> | <u>1,401,414</u> |
| Total liabilities and net position | <u><u>\$ 3,520,084</u></u> | <u><u>\$ 3,313,735</u></u> |

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

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$172,706; 2016 – \$84,614 | \$ 6,665,752 | \$ 6,120,759 |
| Other | <u>827,280</u> | <u>681,891</u> |
| Total operating revenues | <u>7,493,032</u> | <u>6,802,650</u> |
| Operating Expenses | | |
| Salaries and wages | 3,892,804 | 3,558,207 |
| Employee benefits | 797,981 | 696,279 |
| Purchased services and professional fees | 2,029,740 | 1,925,584 |
| Supplies and other | 1,713,462 | 1,600,480 |
| Depreciation | <u>338,470</u> | <u>324,165</u> |
| Total operating expenses | <u>8,772,457</u> | <u>8,104,715</u> |
| Operating Loss | <u>(1,279,425)</u> | <u>(1,302,065)</u> |
| Nonoperating Revenues (Expenses) | | |
| Noncapital appropriations - Wichita County | 1,247,370 | 761,925 |
| Noncapital grants and gifts | 66,038 | 28,282 |
| Reimbursement from County | 6,575 | 6,093 |
| Interest income | 7,967 | 69,589 |
| Interest expense | <u>(29,724)</u> | <u>(47,205)</u> |
| Total nonoperating revenues | <u>1,298,226</u> | <u>818,684</u> |
| Increase (Decrease) in Net Position | 18,801 | (483,381) |
| Net Position, Beginning of Year | <u>1,401,414</u> | <u>1,884,795</u> |
| Net Position, End of Year | <u><u>\$ 1,420,215</u></u> | <u><u>\$ 1,401,414</u></u> |

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

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 6,770,434 | \$ 6,146,274 |
| Payments to suppliers | (4,620,185) | (4,141,099) |
| Payments to employees | (3,883,316) | (3,492,090) |
| Other receipts, net | <u>815,191</u> | <u>792,305</u> |
| Net cash used in operating activities | <u>(917,876)</u> | <u>(694,610)</u> |
| Noncapital Financing Activities | | |
| Noncapital appropriations - Wichita County | 1,247,370 | 761,925 |
| Noncapital grants and gifts | 66,038 | 28,282 |
| Reimbursement from County | <u>6,575</u> | <u>6,093</u> |
| Net cash provided by noncapital financing activities | <u>1,319,983</u> | <u>796,300</u> |
| Capital and Related Financing Activities | | |
| Proceeds from issuance of note payable to bank | - | 85,000 |
| Principal paid on note payable to bank | (157,038) | (5,559) |
| Principal paid on long-term debt | (134,905) | (147,445) |
| Interest paid on note payable to bank and long-term debt | (29,724) | (47,205) |
| Purchases of capital assets | <u>(97,361)</u> | <u>(152,159)</u> |
| Net cash used in capital and related financing activities | <u>(419,028)</u> | <u>(267,368)</u> |
| Investing Activities | | |
| Interest income | <u>7,967</u> | <u>69,589</u> |
| Net cash provided by investing activities | <u>7,967</u> | <u>69,589</u> |
| Decrease in Cash | (8,954) | (96,089) |
| Cash, Beginning of Year | <u>326,399</u> | <u>422,488</u> |
| Cash, End of Year | <u><u>\$ 317,445</u></u> | <u><u>\$ 326,399</u></u> |

Wichita County Health Center
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Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Used in Operating Activities | | |
| Operating loss | \$ (1,279,425) | \$ (1,302,065) |
| Depreciation | 338,470 | 324,165 |
| Provision for uncollectible accounts | 172,706 | 84,614 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (369,157) | 185,209 |
| Estimated amounts due from and to third-party payers | 301,133 | (244,308) |
| Other receivables | 377 | 106,558 |
| Supplies | (2,191) | (20,697) |
| Prepaid expenses and other | (12,466) | 3,856 |
| Accounts payable and accrued expenses | <u>(67,323)</u> | <u>168,058</u> |
| Net cash used in operating activities | <u><u>\$ (917,876)</u></u> | <u><u>\$ (694,610)</u></u> |
| Noncash Investing, Capital and Financing Activities | | |
| Capital lease obligations incurred for capital assets | \$ 312,531 | \$ 209,031 |

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Notes to Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Wichita County Health Center (Health Center) is an acute care hospital located in Leoti, Kansas. The Health Center is considered a component unit of Wichita County. The Health Center is governed by an elected Board of Trustees. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services. The Health Center also provides long-term care and clinic services. The long-term care facility is doing business as Golden Acres.

Basis of Accounting and Presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (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), property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

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

Noncapital Appropriations – Wichita County

The Health Center received approximately 14% and 10% in 2017 and 2016, respectively, of its financial support from noncapital appropriations from Wichita County property tax levy and special sales tax support.

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Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Wichita County is recognized in full in the year in which use is first permitted.

Risk Management

The Health 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, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or 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 Health Center:

| | |
|--------------------|-------------|
| Land improvements | 20 years |
| Buildings | 10-50 years |
| Fixed equipment | 10-20 years |
| Moveable equipment | 5-20 years |

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Compensated Absences

Health Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities 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 Health Center is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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 Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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Income Taxes

As an essential government function of the County, the Health Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments 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 Health Center recorded revenue under the Medicaid EHR program of \$0 and \$66,850, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position as of the years ended December 31, 2017 and 2016, respectively.

Note 2: Net Patient Service Revenue

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

Medicare. The Health Center is licensed 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. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare administrative contractor. A mandatory payment reduction, known as sequestration, of 2% is in effect and will reduce payments until 2023.

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Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Through June 30, 2016, rates were computed each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix index. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 81% and 79% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, 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 Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue consists of the following for the years ended December 31:

| | 2017 | 2016 |
|--------------------------------------|---------------------|---------------------|
| Gross patient service revenue | \$ 5,859,544 | \$ 5,104,027 |
| Plus (less): | | |
| Medicare contractual adjustments | 1,576,360 | 1,480,485 |
| Medicaid contractual adjustments | (139,360) | (31,482) |
| Charity care | (16,033) | (17,018) |
| Other adjustments | (442,053) | (330,639) |
| Provision for uncollectible accounts | (172,706) | (84,614) |
| | <u>\$ 6,665,752</u> | <u>\$ 6,120,759</u> |

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Note 3: Deposits

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

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

At December 31, 2017 and 2016, respectively, \$142,471 and \$82,494 of the Health Center's bank balances of \$392,471 and \$332,494 were exposed to custodial credit risk as follows:

| | 2017 | 2016 |
|--|-------------------|------------------|
| Collateral held by pledging financial institution's trust department or agent in other than the Health Center's name | <u>\$ 142,471</u> | <u>\$ 82,494</u> |

Note 4: Patient Accounts Receivable

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

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Medicare | \$ 478,082 | \$ 433,181 |
| Medicaid | 65,155 | 22,046 |
| Other third-party payers | 141,980 | 93,544 |
| Self-pay | <u>176,335</u> | <u>94,829</u> |
| | 861,552 | 643,600 |
| Less allowance for uncollectible accounts | <u>(26,238)</u> | <u>(4,737)</u> |
| | <u>\$ 835,314</u> | <u>\$ 638,863</u> |

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

| | 2017 | | | |
|-------------------------------|------------------------------|------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 7,950 | \$ - | \$ - | \$ 7,950 |
| Land improvements | 186,031 | - | - | 186,031 |
| Buildings | 4,062,108 | 67,616 | - | 4,129,724 |
| Fixed equipment | 1,371,410 | - | - | 1,371,410 |
| Major moveable equipment | 1,730,765 | 342,276 | (263,500) | 1,809,541 |
| | <u>7,358,264</u> | <u>409,892</u> | <u>(263,500)</u> | <u>7,504,656</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 161,109 | 7,938 | - | 169,047 |
| Buildings | 2,839,692 | 125,029 | - | 2,964,721 |
| Fixed equipment | 1,091,935 | 33,097 | - | 1,125,032 |
| Major moveable equipment | 1,321,257 | 172,406 | (263,500) | 1,230,163 |
| | <u>5,413,993</u> | <u>338,470</u> | <u>(263,500)</u> | <u>5,488,963</u> |
| Capital Assets, Net | <u>\$ 1,944,271</u> | <u>\$ 71,422</u> | <u>\$ -</u> | <u>\$ 2,015,693</u> |

| | 2016 | | | |
|-------------------------------|------------------------------|------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 5,950 | \$ 2,000 | \$ - | \$ 7,950 |
| Land improvements | 186,031 | - | - | 186,031 |
| Buildings | 3,941,309 | 120,799 | - | 4,062,108 |
| Fixed equipment | 1,371,410 | - | - | 1,371,410 |
| Major moveable equipment | 1,511,592 | 238,391 | (19,218) | 1,730,765 |
| | <u>7,016,292</u> | <u>361,190</u> | <u>(19,218)</u> | <u>7,358,264</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 153,171 | 7,938 | - | 161,109 |
| Buildings | 2,707,326 | 132,366 | - | 2,839,692 |
| Fixed equipment | 1,057,932 | 34,003 | - | 1,091,935 |
| Major moveable equipment | 1,190,617 | 149,858 | (19,218) | 1,321,257 |
| | <u>5,109,046</u> | <u>324,165</u> | <u>(19,218)</u> | <u>5,413,993</u> |
| Capital Assets, Net | <u>\$ 1,907,246</u> | <u>\$ 37,025</u> | <u>\$ -</u> | <u>\$ 1,944,271</u> |

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Note 6: Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made (or occurrence-basis) policy on a fixed premium basis. 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 Health Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Note Payable to Bank

The Health Center has a \$300,000 revolving bank line of credit expiring May 1, 2018. At December 31, 2017 and 2016, there was \$0 and 150,050, respectively, borrowed against this line. The line is collateralized by substantially all of the Health Center's assets. Interest varies with the bank's prime rate plus a margin, which was 6.25% on December 31, 2017, and is payable monthly.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Health Center for the years ended December 31:

| | | 2017 | | | | | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--|
| | Beginning | | | Ending | Current | Long-term | |
| | Balance | Additions | Deductions | Balance | Portion | Portion | |
| Note payable to bank | \$ 79,441 | \$ - | \$ 6,988 | \$ 72,453 | \$ 7,350 | \$ 65,103 | |
| Capital lease obligations | 312,620 | 312,531 | 134,905 | 490,246 | 136,717 | 353,529 | |
| | <u>\$ 392,061</u> | <u>\$ 312,531</u> | <u>\$ 141,893</u> | <u>\$ 562,699</u> | <u>\$ 144,067</u> | <u>\$ 418,632</u> | |

Wichita County Health Center
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| | 2016 | | | | | |
|---------------------------|------------------------------|-------------------|-------------------|---------------------------|----------------------------|------------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion | Long-term Portion |
| Note payable to bank | \$ - | \$ 85,000 | \$ 5,559 | \$ 79,441 | \$ 6,988 | \$ 72,453 |
| Capital lease obligations | 251,034 | 209,031 | 147,445 | 312,620 | 115,510 | 197,110 |
| | <u>\$ 251,034</u> | <u>\$ 294,031</u> | <u>\$ 153,004</u> | <u>\$ 392,061</u> | <u>\$ 122,498</u> | <u>\$ 269,563</u> |

Note Payable to Bank

The note payable to bank is due February 15, 2026, with principal payable monthly and interest at prime plus 2% payable monthly. The note is secured by certain capital assets. The debt service requirements as of December 31, 2017, are as follows:

| Year Ending December 31, | Total to be Paid | Principal | Interest |
|-------------------------------------|-----------------------------|------------------|------------------|
| 2018 | \$ 10,852 | \$ 7,350 | \$ 3,502 |
| 2019 | 10,852 | 7,731 | 3,121 |
| 2020 | 10,852 | 8,132 | 2,720 |
| 2021 | 10,852 | 8,554 | 2,298 |
| 2022 | 10,853 | 8,998 | 1,855 |
| 2023-2026 | 34,365 | 31,688 | 2,677 |
| | <u>\$ 88,626</u> | <u>\$ 72,453</u> | <u>\$ 16,173</u> |

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2017 and 2016, totaled \$802,526 and \$873,545, respectively, net of accumulated depreciation of \$302,996 and \$428,596, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.95% to 4.95% together with the present value of the future minimum lease payments as of December 31, 2017:

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| <u>Year Ending December 31,</u> | |
|--|--------------------------|
| 2018 | \$ 153,853 |
| 2019 | 124,817 |
| 2020 | 115,587 |
| 2021 | 89,689 |
| 2022 | <u>44,963</u> |
| Total minimum lease payments | 528,909 |
| Less amount representing interest | <u>38,663</u> |
| Present value of future minimum lease payments | <u><u>\$ 490,246</u></u> |

Note 9: Pension Plans

The Health Center maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Health Center aggregated \$79,998 and \$127,561 during 2017 and \$80,176 and \$116,124 during 2016, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Health Center are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Health Center which are not vested will be returned to the Health Center.

The Health Center provides one additional defined contribution plan (457 plan). The Health Center does not make contributions to the 457 plan. Contributions made by plan members totaled \$32,014 and \$48,273 during 2017 and 2016, respectively. The plan year begins on January 1 and ends December 31.

Note 10: Reimbursement from County

Reimbursements of \$6,575 and \$6,093 for 2017 and 2016, respectively, represent reimbursement of compensation paid to a case manager employed by the Health Center.

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Note 11: 340B Drug Pricing Program

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of \$620,875 and \$622,891 for the years ending December 31, 2017 and 2016, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Health Center recorded expenses related to the 340B Program of \$329,443 and \$388,925 for the years ending December 31, 2017 and 2016, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. The 340B Program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.