

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Rush County Memorial Hospital
La Crosse, Kansas

We have audited the accompanying financial statements of Rush County Memorial Hospital (the Hospital), a component unit of Rush 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 Rush County Memorial 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 Rush County Memorial Hospital 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
July 10, 2018

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	\$ 789,378	\$ 139,927
Restricted cash - held under bond indenture	545	792
Patient accounts receivable, net of allowance; 2017 - \$1,247,000, 2016 - \$1,080,000	1,375,117	725,267
Estimated amounts due from Medicare	-	380,000
Supplies	106,850	108,235
Prepaid expenses and other	75,297	79,527
Total current assets	<u>2,347,187</u>	<u>1,433,748</u>
Noncurrent Cash		
Held under bond indenture for debt service	790	847
Held under bond indenture for capital acquisitions	125,841	643
Total noncurrent cash	<u>126,631</u>	<u>1,490</u>
Capital Assets, Net	<u>3,720,458</u>	<u>4,024,922</u>
Total assets	<u><u>\$ 6,194,276</u></u>	<u><u>\$ 5,460,160</u></u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Note payable to bank, unsecured	\$ -	\$ 385,000
Current maturities of long-term debt	360,855	342,918
Accounts payable	523,661	263,649
Accrued expenses	292,983	227,989
Estimated amounts due to Medicare	530,000	-
Estimated self-insurance costs	-	59,287
Unearned revenue - grants	1,290	6,348
Total current liabilities	1,708,789	1,285,191
Long-term Debt	<u>4,252,570</u>	<u>4,620,371</u>
Total liabilities	<u>5,961,359</u>	<u>5,905,562</u>
Net Position (Deficit)		
Net investment in capital assets	(799,477)	(839,674)
Restricted - expendable for		
Debt service	1,335	1,639
Capital acquisitions	125,841	643
Unrestricted	905,218	391,990
Total net position (deficit)	<u>232,917</u>	<u>(445,402)</u>
Total liabilities and net position (deficit)	<u><u>\$ 6,194,276</u></u>	<u><u>\$ 5,460,160</u></u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Revenues, Expenses and Changes in Net position
Years Ended December 31, 2006 and 2005

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$229,544, 2016 - \$83,956	\$ 4,456,959	\$ 4,269,304
340B Drug Program	244,431	160,659
Other	79,559	40,332
	<u>4,780,949</u>	<u>4,470,295</u>
Operating Expenses		
Salaries and wages	2,550,650	2,244,691
Employee benefits	507,838	641,020
Purchased services and professional fees	681,004	905,407
Supplies and other	1,172,469	1,159,856
Depreciation	482,829	695,744
	<u>5,394,790</u>	<u>5,646,718</u>
	<u>(613,841)</u>	<u>(1,176,423)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Rush County	65,499	-
No Fund Warrants	810,000	-
Interest income	3,563	4,674
Interest expense	(204,231)	(227,850)
Noncapital grants and gifts	288,842	123,898
	<u>963,673</u>	<u>(99,278)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Appropriations and Capital Grants and Gifts	349,832	(1,275,701)
Capital Appropriations - Rush County	328,337	486,831
Capital Grants and Gifts	<u>150</u>	<u>2,932</u>
Increase (Decrease) in Net Position	678,319	(785,938)
Net Position (Deficit), Beginning of Year	<u>(445,402)</u>	<u>340,536</u>
Net Position (Deficit), End of Year	<u>\$ 232,917</u>	<u>\$ (445,402)</u>

Rush County Memorial Hospital
A Component Unit of Rush 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	\$ 4,717,109	\$ 4,653,347
Payments to suppliers and contractors	(1,635,439)	(2,122,514)
Payments to employees	(3,046,037)	(2,993,129)
Other receipts, net	<u>317,246</u>	<u>201,275</u>
Net cash provided by (used in) operating activities	<u>352,879</u>	<u>(261,021)</u>
Noncapital Financing Activities		
Noncapital appropriations - Rush County	65,499	-
No Fund Warrants	810,000	-
Noncapital grants and gifts	<u>283,784</u>	<u>118,368</u>
Net cash provided by noncapital financing activities	<u>1,159,283</u>	<u>118,368</u>
Capital and Related Financing Activities		
Restricted capital grants and gifts received	150	2,932
Proceeds from issuance of note payable to bank	115,000	385,000
Payments on note payable to bank	(500,000)	-
Principal payments on long-term debt	(204,864)	(163,985)
Interest payments on long-term debt	(20,894)	(39,919)
Purchase of capital assets	<u>(130,772)</u>	<u>(86,300)</u>
Net cash provided by (used in) capital and related financing activities	<u>(741,380)</u>	<u>97,728</u>
Investing Activities		
Interest income received	<u>3,563</u>	<u>4,674</u>
Net cash provided by investing activities	<u>3,563</u>	<u>4,674</u>
Increase (Decrease) in Cash	774,345	(40,251)
Cash, Beginning of Year	<u>142,209</u>	<u>182,460</u>
Cash, End of Year	<u><u>\$ 916,554</u></u>	<u><u>\$ 142,209</u></u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 789,378	\$ 139,927
Restricted cash in current assets	545	792
Restricted cash in noncurrent assets	<u>126,631</u>	<u>1,490</u>
Total cash	<u><u>\$ 916,554</u></u>	<u><u>\$ 142,209</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (613,841)	\$ (1,176,423)
Depreciation	482,829	695,744
Accrued self-insurance costs	(59,287)	(50,359)
Provision for uncollectible accounts	229,544	83,956
Changes in operating assets and liabilities		
Patient accounts receivable, net	(879,394)	435,087
Estimated amounts due from and to Medicare	910,000	(135,000)
Accounts payable and accrued expenses	277,413	(109,185)
Other assets and liabilities	<u>5,615</u>	<u>(4,841)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 352,879</u></u>	<u><u>\$ (261,021)</u></u>
Noncash Investing, Capital and Financing Activities		
Long-term debt obligations paid by County	\$ 328,337	\$ 357,931
Notes payable forgiven by County	\$ -	\$ 128,900
Capital assets acquisitions included in accounts payable	\$ 47,593	\$ -

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Rush County Memorial Hospital (Hospital) is an acute care hospital located in La Crosse, Kansas. The Hospital is a component unit of Rush County, Kansas and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and residential long-term care services to patients in the Rush County, Kansas area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as noncapital appropriations derived from property taxes), 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 is available.

Use of Estimates

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

Cash Equivalents

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

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Notes to Financial Statements
December 31, 2017 and 2016

Noncapital Appropriations – Rush County

The Hospital received approximately 7% in 2017 and 11% in 2016 of its financial support from appropriations derived from property taxes. These funds were used as follows:

	<u>2017</u>	<u>2016</u>
Percentage used to support operations	17%	0%
Percentage used for debt service	<u>83%</u>	<u>100%</u>
	<u>100%</u>	<u>100%</u>

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

No Fund Warrants

In January 2017, the County authorized the issuance of \$810,000 of No Fund Warrants from the County to the Hospital to provide additional cash to support Hospital operations and pay outstanding accounts payable. The funds were distributed to the Hospital on January 20, 2017. The warrants are general obligations of the County and do not constitute debt obligations of the Hospital.

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

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

Effective April 2015, the Hospital became 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. Effective January 1, 2017, the Hospital converted to a fully-insured commercial insurance for employee health claims.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

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 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 are depreciated over the shorter of the lease term or their respective useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	8 – 10 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as earned time off or, upon appropriate notice of termination, as a cash payment. Expense and the related liability are recognized as time off is 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 noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

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.

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. 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.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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 under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. Effective May 1, 2017, the Hospital terminated its long-term care provider number and licensed the beds as acute care beds.

Approximately 84% and 68% of net patient service revenue is 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 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.

Note 3: Deposits

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

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Notes to Financial Statements
December 31, 2017 and 2016

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, none of the Hospital's bank balances of \$906,192 and \$260,601 were exposed to custodial credit risk.

Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits	\$ 916,279	\$ 141,934
Petty cash	275	275
	<u>\$ 916,554</u>	<u>\$ 142,209</u>
Included in the following balance sheet captions		
Cash	\$ 789,378	\$ 139,927
Restricted cash - held under bond indenture	545	792
Held under bond indenture for debt service	790	847
Held under bond indenture for capital acquisitions	125,841	643
	<u>\$ 916,554</u>	<u>\$ 142,209</u>

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 December 31 consisted of:

	2017	2016
Medicare	\$ 919,711	\$ 268,337
Medicaid	84,767	64,041
Blue Cross	127,665	58,595
Other third-party payers	214,346	202,396
Patients	1,275,628	1,211,898
	<u>2,622,117</u>	<u>1,805,267</u>
Less allowance for uncollectible accounts	<u>1,247,000</u>	<u>1,080,000</u>
	<u>\$ 1,375,117</u>	<u>\$ 725,267</u>

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	-	23,592
Buildings	5,972,780	3,861	-	-	5,976,641
Fixed equipment	427,276	96,676	-	-	523,952
Major moveable equipment	2,323,530	77,828	-	-	2,401,358
	<u>8,756,775</u>	<u>178,365</u>	<u>-</u>	<u>-</u>	<u>8,935,140</u>
Less accumulated depreciation					
Land improvements	15,904	1,287	-	-	17,191
Buildings	2,356,010	260,663	-	-	2,616,673
Fixed equipment	270,886	23,609	-	-	294,495
Major moveable equipment	2,089,053	197,270	-	-	2,286,323
	<u>4,731,853</u>	<u>482,829</u>	<u>-</u>	<u>-</u>	<u>5,214,682</u>
Capital Assets, Net	<u>\$4,024,922</u>	<u>\$ (304,464)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,720,458</u>

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	-	23,592
Buildings	5,994,876	-	(25,931)	3,835	5,972,780
Fixed equipment	455,176	86,300	(114,200)	-	427,276
Major moveable equipment	2,957,235	-	(629,870)	(3,835)	2,323,530
	<u>9,440,476</u>	<u>86,300</u>	<u>(770,001)</u>	<u>-</u>	<u>8,756,775</u>
Less accumulated depreciation					
Land improvements	14,617	1,287	-	-	15,904
Buildings	2,121,341	260,600	(25,931)	-	2,356,010
Fixed equipment	371,156	13,930	(114,200)	-	270,886
Major moveable equipment	2,298,996	419,927	(629,870)	-	2,089,053
	<u>4,806,110</u>	<u>695,744</u>	<u>(770,001)</u>	<u>-</u>	<u>4,731,853</u>
Capital Assets, Net	<u>\$4,634,366</u>	<u>\$ (609,444)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,024,922</u>

Rush County Memorial Hospital
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Notes to Financial Statements
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Note 6: Medical Malpractice Coverage and Claims

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the 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 7: Employee Health Claims

Effective April 2015, substantially all of the Hospital's employees and their dependents became 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 \$25,000 per covered employee. 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 by not yet reported. The accrual is estimated based on consideration of prior claim 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 is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 59,287	\$ 109,646
Current year claims incurred and changes in estimates for claims incurred in prior years	-	356,896
Claims and expenses paid	<u>(59,287)</u>	<u>(407,255)</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 59,287</u>

Effective January 1, 2017, the Hospital converted to a fully-insured plan for employee health insurance.

Rush County Memorial Hospital
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Notes to Financial Statements
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Note 8: Note Payable to Bank

The Hospital had a \$500,000 revolving bank line of credit that expired February 23, 2017. At December 31, 2016, there was \$385,000 borrowed against this line. The line was unsecured and bore interest at 2.300%. The line of credit was retired in 2017 utilizing no fund warrants funds received from the County.

Note 9: Long-term Debt

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

2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 60,000	\$ -	\$ 30,000	\$ 30,000	\$ 30,000
Note payable - County - 2009	2,355,000	-	140,000	2,215,000	150,000
Note payable - County - 2013	2,050,000	-	5,000	2,045,000	5,000
Unamortized premium	98,693	-	5,203	93,490	-
Capital lease obligations	399,596	-	169,661	229,935	175,855
Total long-term debt	<u>\$ 4,963,289</u>	<u>\$ -</u>	<u>\$ 349,864</u>	<u>\$ 4,613,425</u>	<u>\$ 360,855</u>
2016					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 90,000	\$ -	\$ 30,000	\$ 60,000	\$ 30,000
Note payable - County - 2009	2,490,000	-	135,000	2,355,000	140,000
Note payable - County - 2013	2,055,000	-	5,000	2,050,000	5,000
Unamortized premium	103,896	-	5,203	98,693	-
Capital lease obligations	558,378	-	158,782	399,596	167,918
Total long-term debt	<u>\$ 5,297,274</u>	<u>\$ -</u>	<u>\$ 333,985</u>	<u>\$ 4,963,289</u>	<u>\$ 342,918</u>

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Revenue Bonds, Series 2008A (Bonds) in the original amount of \$300,000 dated June 26, 2008. These Bonds were purchased in their entirety by The Golden Belt Telephone Association, Inc. at their par value with no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds of this loan were used to finance equipment purchases. The Bonds are payable in annual installments of \$30,000 through June 26, 2018.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 30,000	\$ 30,000	\$ -
	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ -</u>

Note Payable – County – 2009

The note payable – County – 2009 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2009 (Bonds), in the original amount of \$2,000,000 and \$3,010,000 dated May 1, 2009 and November 1, 2009, respectively, which bear interest at an average of 4.665% and 5.586% over the term of the bonds, respectively. A portion, \$2,055,000, of the November 1, 2009, issuance was part of the Build America Bonds (BAB) program and subject to a 35% interest rebate. The proceeds from this loan were used to finance the remodeling of the Hospital. The Bonds are payable in annual installments through June 26, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The portion of the November 1, 2009, issuance for the BAB program was called on July 10, 2013, and refunded with General Obligation Bonds, Series 2013.

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 251,726	\$ 150,000	\$ 101,726
2019	280,726	185,000	95,726
2020	278,326	190,000	88,326
2021	280,582	200,000	80,582
2022	279,744	210,000	69,744
2023-2027	726,475	445,000	281,475
2028-2032	727,500	565,000	162,500
2033-2034	291,525	270,000	21,525
	<u>\$ 3,116,604</u>	<u>\$ 2,215,000</u>	<u>\$ 901,604</u>

Note Payable – County – 2013

The note payable – County – 2013 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2013 (Bonds), in the original amount of \$2,060,000 dated July 10, 2013, which bear interest rates of 2.375% to 4.000% over the term of the bonds. The Bonds are payable in annual installments through December 1, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

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The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1:0, and restrictions on issuance of additional debt.

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 80,731	\$ 5,000	\$ 75,731
2019	80,613	5,000	75,613
2020	80,494	5,000	75,494
2021	80,375	5,000	75,375
2022	80,256	5,000	75,256
2023-2027	1,078,075	750,000	328,075
2028-2032	1,059,763	875,000	184,763
2033-2034	418,800	395,000	23,800
	<u>\$ 2,959,107</u>	<u>\$ 2,045,000</u>	<u>\$ 914,107</u>

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2017 and 2016, totaled \$18,029 and \$197,817, net of accumulated depreciation of \$1,233,180 and \$1,053,392, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rate of 8.88% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	\$ 186,202
2019	53,859
Total minimum lease payments	<u>240,061</u>
Less amount representing interest	<u>10,126</u>
Present value of future minimum lease payments	<u>\$ 229,935</u>

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Note 10: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% for both 2017 and 2016. Contributions actually made by plan members and the Hospital aggregated \$76,844 and \$52,806 during 2017 and \$93,538 and \$42,643 during 2016, respectively. The Hospital's contributions were reduced by the use of forfeitures of \$16,292 and \$17,913 during 2017 and 2016, respectively.

Note 11: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$244,431 and \$160,659 for the year ending December 31, 2017 and 2016, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: Management/Services Agreement

The Board of Trustees has contracted with Hays Medical Center, Inc. (HMC) for various services, including management, data processing and accounting services. The terms of the agreements are for one year and can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by HMC to the Hospital for the year ended December 31, 2017, was \$222,193. Amounts included in accounts payable related to these services totaled \$183,734 at December 31, 2017.