

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Independent Auditor's Report and Financial Statements
June 30, 2019 and 2018

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Rawlins County Health Center
Atwood, Kansas

We have audited the accompanying financial statements of Rawlins County Health Center (Health Center), a component unit of Rawlins County, Kansas, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Rawlins 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in *Note 6*, Rawlins County Health Center is the beneficiary of an irrevocable trust that is carried at \$392,450 on the balance sheets at June 30, 2019 and 2018. Management of the Health Center was unable to obtain sufficient appropriate information to support the fair value of the irrevocable trust as of June 30, 2019 and 2018, and elected to carry the beneficial interest at the 2013 fair value. The impact of this matter on the 2019 and 2018 financial statements has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Rawlins County Health Center as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 3,985,927	\$ 2,116,724
Patient accounts receivable, net of allowance; 2019 - \$499,146, 2018 - \$427,210	1,249,906	1,401,275
Estimated amounts due from Medicare	-	185,000
Property taxes receivable	49,698	12,908
Supplies	176,956	198,875
Prepaid expenses and other	100,553	63,231
Total current assets	5,563,040	3,978,013
 Noncurrent Cash and Investments		
Designated by Board of Directors for capital acquisitions	482,800	215,861
Long-term certificates of deposit	249,000	-
Held by Foundation for capital acquisitions	729,897	683,096
Held by trustee for debt service	527,895	491,471
Time restricted trust assets	27,705	29,092
Irrevocable trust	392,450	392,450
	2,409,747	1,811,970
 Capital Assets, Net		
	7,316,356	7,535,885
Total assets	\$ 15,289,143	\$ 13,325,868

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 181,141	\$ 202,867
Accounts payable	269,995	414,988
Salaries payable	223,063	191,667
Payroll taxes payable	52,781	42,598
Vacation benefits payable	107,638	81,946
Accrued interest payable	154,397	156,747
Estimated amounts due to Medicare	1,750,000	-
Deferred property tax revenue	426,926	378,965
	<hr/>	<hr/>
Total current liabilities	3,165,941	1,469,778
Long-term Debt		
	<hr/>	<hr/>
Total liabilities	6,790,403	6,845,812
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	352,894	487,206
Restricted - expendable for		
Debt service	527,895	491,471
Capital acquisitions	729,897	683,096
Restricted - nonexpendable for		
Time restricted trust	27,705	29,092
Irrevocable trust	392,450	392,450
Unrestricted	3,301,958	2,926,963
	<hr/>	<hr/>
Total net position	5,332,799	5,010,278
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 15,289,143</u>	<u>\$ 13,325,868</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$330,153, 2018 - \$92,069	\$ 7,116,679	\$ 6,611,332
Prairie Plaza	115,133	129,381
340B drug program	495,372	311,644
Other	70,267	91,954
Total operating revenues	7,797,451	7,144,311
Operating Expenses		
Salaries and wages	3,566,262	3,184,953
Employee benefits	860,353	762,055
Purchased services and professional fees	1,509,645	1,639,397
Supplies and other	1,567,017	1,522,231
Depreciation	847,455	844,008
Total operating expenses	8,350,732	7,952,644
Operating Loss	(553,281)	(808,333)
Nonoperating Revenues (Expenses)		
Property taxes	825,781	770,957
Investment income	83,836	25,315
Interest expense	(218,797)	(247,500)
Noncapital grants and gifts	104,744	117,297
Total nonoperating revenues	795,564	666,069
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts	242,283	(142,264)
Capital Grants and Gifts	80,238	171,035
Increase in Net Position	322,521	28,771
Net Position, Beginning of Year	5,010,278	4,981,507
Net Position, End of Year	\$ 5,332,799	\$ 5,010,278

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 9,203,048	\$ 7,058,253
Payments to suppliers and contractors	(4,089,578)	(4,033,134)
Payments to employees	(3,509,174)	(3,171,920)
Other receipts	680,772	532,979
	<u>2,285,068</u>	<u>386,178</u>
Net cash provided by operating activities		
Noncapital Financing Activities		
Property taxes supporting operations	836,952	814,332
Noncapital grants and gifts	104,744	117,297
	<u>941,696</u>	<u>931,629</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	156,722
Purchase of capital assets	(385,466)	(652,105)
Principal paid on long-term debt	(319,595)	(228,535)
Interest paid on long-term debt	(218,797)	(247,500)
Capital grants and gifts	33,437	359,826
	<u>(890,421)</u>	<u>(611,592)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest income received	85,223	26,855
Purchase of certificates of deposit	(249,000)	-
	<u>(163,777)</u>	<u>26,855</u>
Net cash provided by (used in) investing activities		
Increase in Cash and Cash Equivalents	2,172,566	733,070
Cash and Cash Equivalents, Beginning of Year	<u>2,824,056</u>	<u>2,090,986</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,996,622</u>	<u>\$ 2,824,056</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 3,985,927	\$ 2,116,724
Noncurrent cash	1,010,695	707,332
	<u>\$ 4,996,622</u>	<u>\$ 2,824,056</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (553,281)	\$ (808,333)
Depreciation	847,455	844,008
Provision for uncollectible accounts	330,153	92,069
Changes in operating assets and liabilities		
Patient accounts receivable, net	(178,784)	(570,148)
Estimated amounts due from and to Medicare	1,935,000	925,000
Supplies	21,919	(30,936)
Other assets	(37,322)	(24,062)
Accounts payable and accrued expenses	<u>(80,072)</u>	<u>(41,420)</u>
Net cash provided by operating activities	<u>\$ 2,285,068</u>	<u>\$ 386,178</u>
 Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 242,460	\$ 60,000
Decrease in fair value of the time restricted trust	\$ (1,387)	\$ (1,540)

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2019 and 2018

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

Nature of Operations and Reporting Entity

Rawlins County Health Center (Health Center) is an acute care hospital located in Atwood, Kansas. The Health Center is a component unit of Rawlins County (County) and is governed by an elected Board of Directors. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Rawlins County area.

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 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 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. At June 30, 2019 and 2018, cash equivalents consisted of certificates of deposit.

Budgetary Principles

The Health Center is required by state statutes to adopt an annual budget for the unrestricted funds on or before August 25 for the ensuing year. The Health Center's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of expenditures of the fund which is prepared on a calendar year basis.

Rawlins County Health Center
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June 30, 2019 and 2018

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted unrestricted funds, representing purchase orders, contracts and other commitments, are reported as a charge to the current budget year. All unencumbered appropriations lapse at the end of the year.

Property Taxes

The Health Center received approximately 9% in 2019 and 2018 of its financial support from property taxes. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes are levied, which is 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 net realizable value.

Noncurrent Cash and Investments

Noncurrent cash and investments include designated assets set aside by the Board of Directors for capital acquisitions, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets restricted for capital purposes, restricted for debt service, time restricted trust assets and an irrevocable trust.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

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

Capital Asset Impairment

The Health Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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 four 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 Health Center, including amounts deposited with trustees as required by revenue bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Health Center, such as permanent endowments. The time restricted trust assets have a time restriction that expires in year 2026.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

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 Health Center has agreements with third-party payers that provide for payments to the Health Center 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 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.

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.

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 recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Health Center 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 Health Center 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.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

Approximately 67% and 68% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, 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.

Note 3: Deposits and Investments

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 June 30, 2019 and 2018, respectively, \$4,783,450 and \$1,677,462 of the Health Center's bank balances of \$5,303,974 and \$2,943,337 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution	\$ 4,783,450	\$ 1,677,462

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 5,245,622	\$ 2,824,056
Included in the following balance sheet captions		
Cash	\$ 3,985,927	\$ 2,116,724
Noncurrent cash and investments		
Designated by Board of Directors for capital acquisitions	482,800	215,861
Long-term certificates of deposit	249,000	-
Held by trustee for debt service	527,895	491,471
	<u>\$ 5,245,622</u>	<u>\$ 2,824,056</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 agreements. Patient accounts receivable at June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 693,649	\$ 862,843
Medicaid	77,423	32,681
Blue Cross	156,677	304,626
Other third-party payers	178,617	154,689
Self-pay	642,686	473,646
	<u>1,749,052</u>	<u>1,828,485</u>
Less provision for uncollectible accounts	<u>(499,146)</u>	<u>(427,210)</u>
Patient accounts receivable, net	<u>\$ 1,249,906</u>	<u>\$ 1,401,275</u>

Note 5: Rawlins County Health Foundation

The Rawlins County Health Foundation (Foundation) was established to improve medical, hospital or other health care services in Rawlins County. The Health Center does not have control over the Foundation and the Foundation has not been included in the Health Center's financial statements. Balances held by the Foundation are restricted by donor for Health Center capital acquisitions and total \$729,897 and \$683,096 at June 30, 2019 and 2018, respectively.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

Note 6: Irrevocable Trust

The Health Center is an income beneficiary of an irrevocable trust controlled by an unrelated third-party trustee. The beneficial interest in the assets of this trust is included in the Health Center's financial statements as restricted, non-expendable net position. Income is distributed in accordance with the trust documents and is included in noncapital grants and gifts. The estimated value of the expected future cash flows is \$392,450, which represents the Health Center's share of the fair value of the trust assets at June 30, 2013. As of June 30, 2019 and 2018, management of the Health Center was unable to obtain sufficient appropriate information to support the fair value of the irrevocable trust. The impact of this matter on the 2019 and 2018 financial statements has not been determined. Trust income distributed to the Health Center was \$8,095 and \$15,000 for the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2013, the trust was invested primarily in mutual funds and real estate in Rawlins County, Kansas. No information regarding the value of the trust as of June 30, 2019 and 2018, was provided to the Health Center by the trustee. Based on market conditions that existed at June 30, 2019 and 2018, management deemed the fair value as of June 30, 2013, to approximate fair value as of June 30, 2019 and 2018.

Note 7: Capital Assets

Capital assets activity for the years ended June 30 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 14,705	\$ -	\$ -	\$ -	\$ 14,705
Land improvements	1,010,644	-	-	-	1,010,644
Buildings	10,313,214	-	-	-	10,313,214
Fixed equipment	1,973,607	189,319	-	47,102	2,210,028
Moveable equipment	1,995,162	438,607	-	-	2,433,769
Construction in progress	47,102	-	-	(47,102)	-
	<u>15,354,434</u>	<u>627,926</u>	<u>-</u>	<u>-</u>	<u>15,982,360</u>
Less accumulated depreciation					
Land improvements	602,078	50,586	-	-	652,664
Buildings	4,467,363	515,083	-	-	4,982,446
Fixed equipment	1,200,576	116,986	-	-	1,317,562
Moveable equipment	1,548,532	156,718	-	-	1,705,250
	<u>7,818,549</u>	<u>839,373</u>	<u>-</u>	<u>-</u>	<u>8,657,922</u>
Capital Assets, Net	<u>\$ 7,535,885</u>	<u>\$ (211,447)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,324,438</u>

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2019 and 2018

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 14,705	\$ -	\$ -	\$ -	\$ 14,705
Land improvements	1,010,644	-	-	-	1,010,644
Buildings	9,584,823	480,552	-	247,839	10,313,214
Fixed equipment	1,973,607	-	-	-	1,973,607
Moveable equipment	1,810,711	184,451	-	-	1,995,162
Construction in progress	247,839	47,102	-	(247,839)	47,102
	<u>14,642,329</u>	<u>712,105</u>	<u>-</u>	<u>-</u>	<u>15,354,434</u>
Less accumulated depreciation					
Land improvements	550,470	51,608	-	-	602,078
Buildings	3,985,255	482,108	-	-	4,467,363
Fixed equipment	1,087,818	112,758	-	-	1,200,576
Moveable equipment	1,350,998	197,534	-	-	1,548,532
	<u>6,974,541</u>	<u>844,008</u>	<u>-</u>	<u>-</u>	<u>7,818,549</u>
Capital Assets, Net	<u>\$ 7,667,788</u>	<u>\$ (131,903)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,535,885</u>

Note 8: Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides for \$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 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.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2019 and 2018

Note 9: Long-term Debt

The following is a summary of long-term debt transactions for the Health Center for the years ended June 30:

	2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2012 Revenue Bonds	\$ 6,717,721	\$ -	\$ 100,755	\$ 6,616,966	\$ 104,281	\$ 6,512,685
Note payable - Foundation	141,050	-	31,345	109,705	31,344	78,361
Capital lease obligations	189,908	242,460	187,495	244,873	45,516	199,357
	<u>\$ 7,048,679</u>	<u>\$ 242,460</u>	<u>\$ 319,595</u>	<u>\$ 6,971,544</u>	<u>\$ 181,141</u>	<u>\$ 6,790,403</u>

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2012 Revenue Bonds	\$ 6,815,069	\$ -	\$ 97,348	\$ 6,717,721	\$ 100,755	\$ 6,616,966
Note payable - Foundation	-	156,722	15,672	141,050	31,344	109,706
Capital lease obligations	245,423	60,000	115,515	189,908	70,768	119,140
	<u>\$ 7,060,492</u>	<u>\$ 216,722</u>	<u>\$ 228,535</u>	<u>\$ 7,048,679</u>	<u>\$ 202,867</u>	<u>\$ 6,845,812</u>

Series 2012 Revenue Bonds

In November 2010, the County issued 1.75% Kansas Hospital Revenue Bond Anticipation Refunding and Improvement Bonds, Series 2010B, totaling \$7,000,000 maturing on November 1, 2012. The Series 2010B Revenue Bonds were used to provide funds for renovation projects to the Health Center and for redemption of \$1,100,000 of the Series 2010 Revenue Bonds. The County issued Kansas Hospital Refunding Bonds, Series 2012, dated October 26, 2012, to provide permanent funding for the project. The Series 2012 Bonds total \$7,000,000 and have maturity dates through October 26, 2052. The United States Department of Agriculture – Rural Development purchased the Series 2012 Bonds in their entirety on October 31, 2012.

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Under the terms of the bond indentures, the Health Center is required to maintain certain revenue bond funds. These funds, which consist entirely of cash, are included in noncurrent cash and investments – held by trustee for debt service in the accompanying balance sheets and consist of the following at June 30:

	2019	2018
Debt service	\$ 253,044	\$ 252,605
Bond reserve funds	274,851	238,866
	\$ 527,895	\$ 491,471

The debt service requirements of revenue bonds payable as of June 30, 2019, are as follows:

Year Ending June 30,	Total	Principal	Interest
2020	\$ 335,875	\$ 104,281	\$ 231,594
2021	335,875	107,931	227,944
2022	335,875	111,709	224,166
2023	335,875	115,618	220,257
2024	335,875	119,665	216,210
2025-2029	1,679,374	664,158	1,015,216
2030-2034	1,679,374	788,812	890,562
2035-2039	1,679,375	936,862	742,513
2040-2044	1,679,374	1,112,697	566,677
2045-2049	1,679,376	1,321,537	357,839
2050-2053	1,343,501	1,233,696	109,805
	\$ 11,419,749	\$ 6,616,966	\$ 4,802,783

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Note Payable - Foundation

In November 2017, the Health Center entered into a note payable with the Foundation in the amount of \$156,722 and interest at 0%. Proceeds of the note were used to fund building improvements. Payments are due monthly through December 31, 2022.

The debt service requirements of note payable to Foundation as of June 30, 2019, are as follows:

Year Ending June 30,	Total	Principal	Interest
2020	\$ 31,344	\$ 31,344	\$ -
2021	31,344	31,344	-
2022	31,344	31,344	-
2023	15,673	15,673	-
	<u>\$ 109,705</u>	<u>\$ 109,705</u>	<u>\$ -</u>

Capital Lease Obligations

The Health Center is obligated under leases for equipment at various interest rates with maturities ranging from fiscal years 2020 to 2024.

The following is a schedule by year of future minimum lease payments under capital lease together with the present value of the future minimum lease payments as of June 30, 2019:

Year Ending June 30,	Total	Principal	Interest
2020	\$ 55,925	\$ 45,516	\$ 10,409
2021	54,821	46,354	8,467
2022	54,821	48,604	6,217
2023	54,821	50,963	3,858
2024	54,803	53,436	1,367
	<u>\$ 275,191</u>	<u>\$ 244,873</u>	<u>\$ 30,318</u>

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Following is a schedule of the equipment cost and accumulated depreciation under capital leases at June 30:

	2019	2018
Equipment	\$ 252,210	\$ 1,063,396
Less accumulated depreciation	7,313	816,465
	<u>\$ 244,897</u>	<u>\$ 246,931</u>

Note 10: Pension Plan

The Health Center maintains a contributory pension plan which requires mandatory contributions from all participating employees. Benefits are funded by a money purchase annuity with an insurance company. Employee and employer contributions are computed at 8% of annual eligible compensation respectively. All contributions are 100% vested upon participation in the plan. Contributions actually made by plan members and the Health Center each aggregated \$269,496 and \$241,691 during 2019 and 2018, respectively.

Note 11: Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefit Plan (the Plan) for its member organizations and their participating employees. The Health Center is a member organization in the Trust and substantially all of the Health Center's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method.

Effective July 1, 2018, the Health Center terminated participation in the Plan and created its own self-insured health insurance plan.

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Note 12: Employee Health Claims

Substantially all of the Health Center’s employees and their dependents are eligible to participate in the Health Center’s employee health insurance plan. The Health Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$50,000 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 but 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 Health Center’s estimate will change by a material amount in the near term.

Activity in the Health Center’s accrued employee health claims liability during 2019 is summarized as follows:

	2019
Balance, beginning of year	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	475,456
Claims and expenses paid	(439,783)
Balance, end of year	\$ 35,673

Note 13: Management Agreement

The Board of Directors of the Health Center has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. Effective November 30, 2017, the Health Center terminated all GPHA services with the exception of the Great Plains Employee Benefits Trust which was terminated effective July 1, 2018. Fees incurred for the various services provided by GPHA to the Health Center for the years ended June 30, 2019 and 2018, were \$0 and \$54,476, respectively.

Effective October 1, 2017, the Health Center has contracted with Centura Health Corporation (Centura) for various services, including oversight, providing a hospital administrator and certain other financial services. Fees incurred for the various services provided by Centura to the Health Center for the year ended June 30, 2019 and 2018, were \$95,939 and \$45,833. Amounts due to Centura at June 30, 2019 and 2018, were \$23,029 and \$44,889, respectively.

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Note 14: 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 of \$495,372 and \$311,644 for the years ending June 30, 2019 and 2018, respectively. The Health Center recorded expenses of \$276,371 and \$147,789 for the years ending June 30, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenue and expenses and changes in net position. This program is overseen by the Health Resources and Service 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 340B Program could occur in the near term.

Note 15: Future Changes in Accounting Principle

Leases

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

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Fiduciary Activities

GASB Statement No. 84 (GASB 84), Fiduciary Activities establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2018. The Health Center is evaluating the impact the statement will have on the financial statements.

Supplementary Information

Rawlins County Health Center
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Comparison of Revenues and Expenses (Cash Basis) Actual to Tax Budget
Calendar Year Ended December 31, 2018

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenue	\$ 6,943,090	\$ 6,118,461	\$ 824,629
Other revenue	<u>512,250</u>	<u>530,000</u>	<u>(17,750)</u>
Total operating revenue	7,455,340	6,648,461	806,879
Operating expenses	<u>8,442,591</u>	<u>8,161,497</u>	<u>281,094</u>
Operating loss	<u>(987,251)</u>	<u>(1,513,036)</u>	<u>525,785</u>
Property tax revenue	761,285	757,930	3,355
Other nonoperating revenues	<u>511,053</u>	<u>518,674</u>	<u>(7,621)</u>
Total nonoperating revenues	<u>1,272,338</u>	<u>1,276,604</u>	<u>(4,266)</u>
Excess (deficiency) of revenues over expenses	<u><u>\$ 285,087</u></u>	<u><u>\$ (236,432)</u></u>	<u><u>\$ 521,519</u></u>