

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Independent Auditor's Report and Financial Statements
March 31, 2018 and 2017



Phillips County Health Systems
A Component Unit of Phillips County, Kansas
March 31, 2018 and 2017

Contents

Independent Auditor’s Report 1

Financial Statements

Balance Sheets..... 3
Statements of Revenues, Expenses and Changes in Net Position 4
Statements of Cash Flows 5
Notes to Financial Statements 7

Independent Auditor's Report

Board of Trustees
Phillips County Health Systems
Phillipsburg, Kansas

We have audited the accompanying financial statements of Phillips County Health Systems (PCHS), a component unit of Phillips County, Kansas, as of and for the years ended March 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise PCHS'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 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 Phillips County Health Systems as of March 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted 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
August 29, 2018

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Balance Sheets
March 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 749,420	\$ 1,105,658
Patient accounts receivable, net of allowance; 2018 – \$335,194; 2017 – \$427,561	1,752,829	1,721,292
Estimated amounts due from third-party payers	-	77,333
Supplies	213,355	187,296
Prepaid expenses and other	103,687	95,986
Total current assets	2,819,291	3,187,565
 Noncurrent Cash and Investments		
Restricted by donors for specific operating activities	64,174	258,691
Certificate of deposit	9,500	9,500
	73,674	268,191
 Capital Assets, Net	 2,055,272	 1,518,031
 Scholarships Receivable	 49,465	 44,348
Total assets	\$ 4,997,702	\$ 5,018,135

	<u>2018</u>	<u>2017</u>
Liabilities and Net Position		
Current Liabilities		
Line of credit	\$ 200,000	\$ -
Current maturities of long-term debt	107,031	78,577
Accounts payable	1,271,958	1,264,905
Accrued salaries and wages	322,273	332,414
Accrued payroll taxes and other	249,113	264,970
Accrued benefits payable	403,434	393,104
Estimated amounts due to third-party payers	115,000	345,000
	<hr/>	<hr/>
Total current liabilities	2,668,809	2,678,970
	<hr/>	<hr/>
Long-term Debt	539,298	273,109
	<hr/>	<hr/>
Total liabilities	3,208,107	2,952,079
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	1,408,943	1,166,345
Restricted - expendable for specific operating activities	64,174	258,691
Unrestricted	316,478	641,020
	<hr/>	<hr/>
Total net position	1,789,595	2,066,056
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 4,997,702</u>	<u>\$ 5,018,135</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$157,922; 2017 - \$96,472	\$ 10,389,834	\$ 10,844,414
Other	<u>1,432,714</u>	<u>1,260,240</u>
Total operating revenues	<u>11,822,548</u>	<u>12,104,654</u>
Operating Expenses		
Salaries and wages	5,398,920	5,683,203
Supplies and other	7,168,968	6,958,651
Depreciation	<u>296,665</u>	<u>265,320</u>
Total operating expenses	<u>12,864,553</u>	<u>12,907,174</u>
Operating Loss	<u>(1,042,005)</u>	<u>(802,520)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Phillips County	420,007	367,992
Noncapital grants and gifts	393,740	356,613
Interest income	15,948	12,421
Interest expense	<u>(64,151)</u>	<u>(36,243)</u>
Total nonoperating revenues	<u>765,544</u>	<u>700,783</u>
Decrease in Net Position	(276,461)	(101,737)
Net Position, Beginning of Year	<u>2,066,056</u>	<u>2,167,793</u>
Net Position, End of Year	<u>\$ 1,789,595</u>	<u>\$ 2,066,056</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 10,205,630	\$ 10,943,148
Payments to suppliers	(7,128,535)	(6,054,517)
Payments to employees	(5,414,588)	(5,861,110)
Other receipts, net	<u>1,415,726</u>	<u>1,254,931</u>
Net cash provided by (used in) operating activities	<u>(921,767)</u>	<u>282,452</u>
Noncapital Financing Activities		
Noncapital appropriations - Phillips County	420,007	367,992
Noncapital grants and gifts	393,740	356,613
Proceeds from issuance of line of credit	300,000	-
Principal paid on line of credit	<u>(100,000)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,013,747</u>	<u>724,605</u>
Capital and Related Financing Activities		
Proceeds from issuance of note payable to bank	255,217	-
Principal paid on long-term debt	(501,191)	(95,744)
Interest paid on long-term debt	(64,151)	(36,243)
Purchases of capital assets	(361,808)	(91,845)
Proceeds from disposal of capital assets	<u>13,250</u>	<u>4,785</u>
Net cash used in capital and related financing activities	<u>(658,683)</u>	<u>(219,047)</u>
Investing Activities		
Interest income	<u>15,948</u>	<u>12,421</u>
Net cash provided by investing activities	<u>15,948</u>	<u>12,421</u>
Increase (Decrease) in Cash	(550,755)	800,431
Cash, Beginning of Year	<u>1,364,349</u>	<u>563,918</u>
Cash, End of Year	<u>\$ 813,594</u>	<u>\$ 1,364,349</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Statements of Cash Flows (Continued)
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 749,420	\$ 1,105,658
Cash in noncurrent cash	64,174	258,691
	<u>\$ 813,594</u>	<u>\$ 1,364,349</u>
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities		
Operating loss	\$ (1,042,005)	\$ (802,520)
Depreciation	296,665	265,320
Gain on disposal of capital assets	(4,170)	(684)
Provision for uncollectible accounts	157,922	96,472
Changes in operating assets and liabilities		
Patient accounts receivable, net	(189,459)	(235,405)
Estimated amounts due from and to third-party payers	(152,667)	237,667
Supplies	(26,059)	(7,923)
Prepaid expenses and other	(12,818)	(4,625)
Accounts payable and accrued expenses	50,824	734,150
	<u>\$ (921,767)</u>	<u>\$ 282,452</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 540,617	\$ 98,300
Capital asset purchases included in accounts payable	\$ -	\$ 59,439

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

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

Nature of Operations

Phillips County Hospital d/b/a Phillips County Health Systems (PCHS) provides acute care, swing-bed and clinic services in the Phillipsburg, Kansas area. PCHS is a component unit of Phillips County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees (BOT) of PCHS.

Basis of Accounting and Presentation

The financial statements of PCHS 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. PCHS 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 and Cash Equivalents

PCHS considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2018 and 2017.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted by donors for specific operating activities and a certificate of deposit carried at amortized cost. Noncurrent cash consists primarily of money market accounts.

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Noncapital Appropriations – Phillips County

PCHS received approximately 3% of its financial support from noncapital appropriations from the County property tax levy in 2018 and 2017. These funds were used to support operations.

Property taxes are assessed in November and are received beginning in January of the following year. Noncapital appropriations revenue from property taxes is recognized in full in the year in which use is first permitted.

Risk Management

PCHS 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

PCHS reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. PCHS 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 PCHS:

Land improvements	15-20 years
Buildings	15-40 years
Fixed equipment	10-20 years
Moveable equipment	3-20 years

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Compensated Absences

PCHS policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. 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. Accrued benefits payable are computed using the regular pay rates in effect at the balance sheet date.

Net Position

Net position of PCHS is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to PCHS. 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

PCHS has agreements with third-party payers that provide for payments to PCHS 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 include estimated retroactive revenue adjustments. 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

PCHS provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because PCHS 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, PCHS 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, PCHS is subject to federal income tax on any unrelated business taxable income.

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

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 PCHS'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, PCHS 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.

PCHS recorded revenue under the Medicaid EHR program of \$0 and \$18,543, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended March 31, 2018 and 2017, respectively.

Note 2: Net Patient Service Revenue

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

Medicare. PCHS is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. PCHS is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by PCHS and audits thereof by the Medicare administrative contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2025.

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.

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Approximately 67% and 72% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

PCHS has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to PCHS 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 ending March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 11,775,046	\$ 11,660,655
Contractual adjustments		
Medicare	43,348	195,848
Medicaid	(320,127)	(182,557)
Blue Cross	(544,443)	(384,105)
Other	(172,044)	(247,092)
Administrative adjustments	(101,634)	(39,185)
Charity care	(132,390)	(62,678)
Provision for uncollectible accounts	(157,922)	(96,472)
	<u>\$ 10,389,834</u>	<u>\$ 10,844,414</u>

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. PCHS'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 March 31, 2018 and 2017, respectively, \$336,374 and \$897,469 of PCHS's bank balances of \$834,552 and \$1,377,682 were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	\$ -	\$ 301,661
Uninsured and collateral held by pledging financial institution	336,374	595,808
	<u>\$ 336,374</u>	<u>\$ 897,469</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Summary of Carrying Values

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

	2018	2017
Carrying value		
Cash	\$ 813,594	\$ 1,364,349
Certificates of deposit	9,500	9,500
	\$ 823,094	\$ 1,373,849
Included in the following balance sheet captions		
Cash	\$ 749,420	\$ 1,105,658
Certificates of deposit	9,500	9,500
Noncurrent cash	64,174	258,691
	\$ 823,094	\$ 1,373,849

Note 4: Patient Accounts Receivable

PCHS grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at March 31 consisted of:

	2018	2017
Medicare	\$ 975,779	\$ 1,026,071
Medicaid	33,905	10,367
Blue Cross	145,913	271,673
Other third-party payers	277,267	211,465
Self-pay	655,159	629,277
	2,088,023	2,148,853
Less allowance for uncollectible accounts	(335,194)	(427,561)
	\$ 1,752,829	\$ 1,721,292

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Note 6: Medical Malpractice Claims

PCHS 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 PCHS'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: Line of Credit

PCHS has a \$500,000 revolving bank line of credit. The line of credit was renewed on November 5, 2017 and expired on August 17, 2018. Management intends to renew the line of credit on comparable terms and believes it is probable such renewal will be successful. The line of credit is for operating purposes with a fixed interest rate of 5.25%, collateralized by primarily all of PCHS's assets. At March 31, 2018 and 2017, there was \$200,000 and \$0 borrowed against the line, respectively. The following is a summary of line of credit transactions for year ended March 31:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ -	\$ -
Additions	300,000	-
Deductions	<u>(100,000)</u>	<u>-</u>
Ending balance	<u>\$ 200,000</u>	<u>\$ -</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for PCHS for the years ended March 31:

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable	\$ 112,122	\$ 255,217	\$ (141,685)	\$ 225,654	\$ 7,492
Capital lease obligations	239,564	540,617	(359,506)	420,675	99,539
	<u>\$ 351,686</u>	<u>\$ 795,834</u>	<u>\$ (501,191)</u>	<u>\$ 646,329</u>	<u>\$ 107,031</u>
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable	\$ 119,047	\$ -	\$ (6,925)	\$ 112,122	\$ 7,203
Capital lease obligations	230,083	98,300	(88,819)	239,564	71,374
	<u>\$ 349,130</u>	<u>\$ 98,300</u>	<u>\$ (95,744)</u>	<u>\$ 351,686</u>	<u>\$ 78,577</u>

Notes Payable to Bank

The notes payable to bank have varying maturities through July 2029, with principal and interest payable monthly. The interest rates on the notes range from 3.94% to 5.80%. The notes are secured by certain capital assets. The debt service requirements as of March 31, 2018, are as follows:

Year Ending March 31,	Total to be Paid	Principal	Interest
2019	\$ 18,132	\$ 7,492	\$ 10,640
2020	82,503	71,780	10,723
2021	71,533	64,854	6,679
2022	11,494	8,431	3,063
2023	11,494	8,770	2,724
2024 - 2028	57,469	49,420	8,049
2029 - 2030	15,327	14,907	420
	<u>\$ 267,952</u>	<u>\$ 225,654</u>	<u>\$ 42,298</u>

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Capital Lease Obligations

PCHS is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at March 31, 2018 and 2017, totaled \$849,744 and \$476,894, respectively, net of accumulated depreciation of \$186,176 and \$257,186, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.75% to 11.00% together with the present value of the future minimum lease payments as of March 31, 2018:

Year Ending March 31,	
2019	\$ 118,616
2020	175,231
2021	107,207
2022	30,811
2023	20,575
2024	13,550
Total minimum lease payments	<u>465,990</u>
Less amounts representing interest	<u>45,315</u>
Present value of future minimum lease payments	<u><u>\$ 420,675</u></u>

Note 9: Pension Plan

PCHS maintains a contributory pension plan covering substantially all employees. Pension expense is recorded for the amount of PCHS's required contributions, determined in accordance with the terms of the plan. The plan provides retirement and death 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 PCHS's governing body. Contribution rates for plan members and PCHS expressed as a percentage of covered payroll were 11% and 10% for 2018 and 2017, respectively. Contributions actually made by plan members and PCHS aggregated \$574,943 and \$532,063 during 2018 and \$616,296 and \$576,234, during 2017, respectively.

Note 10: Management/Services Agreement

The Board of Trustees of PCHS has contracted with GPHA for various services, including management and data processing services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to PCHS totaled \$810,318 and \$549,471 in 2018 and 2017, respectively. Amounts included in accounts payable related to these services totaled \$579,680 and \$322,795 at March 31, 2018 and 2017, respectively.

Phillips County Health Systems
A Component Unit of Phillips County, Kansas
Notes to Financial Statements
March 31, 2018 and 2017

Note 11: Charity Care

The costs of charity care provided under PCHS's charity care policy were \$132,520 and \$63,938 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges from the 2018 and 2017 Medicare cost reports, respectively, to the gross uncompensated charges.

Note 12: 340B Drug Pricing Program

PCHS participates in the 340B Drug Pricing Program (340B Program), enabling PCHS to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. PCHS recorded revenues of \$1,115,716 and \$1,040,591 for the years ending March 31, 2018 and 2017, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. PCHS recorded expenses of \$979,275 and \$994,327 for the years ending March 31, 2018 and 2017, respectively, which is included in supplies and other in the accompanying statements of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of 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 13: Great Plains 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 Benefits Plan (the Plan) for its member organizations and their participating employees. PCHS is a member organization in the Trust and substantially all of PCHS'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. During 2016, PCHS was assessed approximately \$126,400, of which \$94,800 was estimated to cover the shortfall at March 31, 2016, which is included in accrued payroll taxes and other in the accompanying balance sheets. The insurance assessment was paid in full as of March 31, 2017. No further insurance assessment was necessary through March 31, 2018.