

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

Board of Trustees  
Medicine Lodge Memorial Hospital  
Medicine Lodge, Kansas

We have audited the accompanying financial statements of Medicine Lodge Memorial Hospital, a component unit of the Medicine Lodge Township, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Medicine Lodge 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 Medicine Lodge Memorial Hospital as of December 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.

***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.

*BKD, LLP*

Wichita, Kansas  
July 8, 2019

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Balance Sheets**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash	\$ 1,236,538	\$ 370,719
Patient accounts receivable, net of allowance; 2018 - \$184,966, 2017 - \$334,745	1,795,547	1,331,718
Property and sales tax receivable	49,446	47,470
Supplies	202,882	159,971
Prepaid expenses and other	69,522	90,308
Other receivables	29,122	43,778
Total current assets	3,383,057	2,043,964
 <b>Noncurrent Cash and Investments</b>		
Designated by Board of Trustees	387,189	400,852
Restricted by donors for capital acquisitions and specific operating activities	100	6,800
Ranch land and mineral interests, at cost	89,078	89,078
	476,367	496,730
 <b>Capital Assets, Net</b>	8,315,954	8,984,234
Total assets	\$ 12,175,378	\$ 11,524,928

## Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 199,903	\$ 177,937
Accounts payable	200,706	243,869
Accrued expenses	483,327	504,161
Accrued bond interest	41,747	43,285
Estimated amounts due to third-party payers	994,283	37,904
	<hr/>	<hr/>
Total current liabilities	1,919,966	1,007,156
<b>Long-term Debt</b>	<u>4,135,630</u>	<u>4,244,782</u>
Total liabilities	<u>6,055,596</u>	<u>5,251,938</u>
<b>Net Position</b>		
Net investment in capital assets	3,980,421	4,561,515
Restricted - expendable for		
Specific operating activities	100	6,800
Unrestricted	2,139,261	1,704,675
	<hr/>	<hr/>
Total net position	6,119,782	6,272,990
Total liabilities and net position	<u>\$ 12,175,378</u>	<u>\$ 11,524,928</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$22,768, 2017 - \$275,663	\$ 8,272,356	\$ 7,836,490
340B Drug Program	783,531	762,296
Other	228,479	278,907
Total operating revenues	9,284,366	8,877,693
<b>Operating Expenses</b>		
Salaries and wages	4,728,053	4,873,258
Employee benefits	1,036,220	1,060,370
Purchased services and professional fees	1,298,394	1,163,828
Supplies and other	2,126,693	2,193,336
Depreciation	833,046	846,378
Gain on disposal of capital assets	-	(26,195)
Total operating expenses	10,022,406	10,110,975
<b>Operating Loss</b>	(738,040)	(1,233,282)
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital appropriations - County and City	670,335	605,247
Investment income	26,553	17,742
Interest expense	(149,805)	(154,959)
Noncapital grants and gifts	21,332	21,439
Ranch income, net of expense	16,417	25,401
Total nonoperating revenues	584,832	514,870
<b>Decrease in Net Position</b>	(153,208)	(718,412)
<b>Net Position, Beginning of Year</b>	6,272,990	6,991,402
<b>Net Position, End of Year</b>	\$ 6,119,782	\$ 6,272,990

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 8,764,906	\$ 7,936,055
Payments to suppliers and contractors	(4,526,595)	(4,429,802)
Payments to employees	(4,750,425)	(4,769,642)
Other receipts, net	1,026,666	1,031,778
Net cash provided by (used in) operating activities	514,552	(231,611)
<b>Noncapital Financing Activities</b>		
Noncapital appropriations supporting operations	668,359	602,512
Noncapital grants and gifts	21,332	21,439
Net cash provided by noncapital financing activities	689,691	623,951
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(183,710)	(228,501)
Interest payments on long-term debt	(149,805)	(154,959)
Purchases of capital assets	(68,242)	(94,643)
Proceeds from disposition of capital assets	-	26,195
Net cash used in capital and related financing activities	(401,757)	(451,908)
<b>Investing Activities</b>		
Ranch operations	16,417	25,401
Investment income	26,553	17,742
Net cash provided by investing activities	42,970	43,143
<b>Increase (Decrease) in Cash</b>	845,456	(16,425)
<b>Cash, Beginning of Year</b>	778,371	794,796
<b>Cash, End of Year</b>	\$ 1,623,827	\$ 778,371
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 1,236,538	\$ 370,719
Noncurrent cash designated by Board of Trustees	387,189	400,852
Noncurrent cash restricted by donors	100	6,800
Total cash	\$ 1,623,827	\$ 778,371



**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (738,040)	\$ (1,233,282)
Depreciation	833,046	846,378
Gain on disposal of capital assets	-	(26,195)
Provision for uncollectible accounts	22,768	275,663
Changes in operating assets and liabilities		
Patient accounts receivable, net	(486,597)	(662,961)
Estimated amounts due from and to third-party payers	956,379	486,863
Other receivables	14,656	(9,425)
Supplies	(42,911)	7,491
Prepaid expenses and other	20,786	(19,573)
Accounts payable and accrued expenses	(65,535)	103,430
Net cash provided by (used in) operating activities	<u>\$ 514,552</u>	<u>\$ (231,611)</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Capital lease obligations incurred for capital assets	<u>\$ 96,524</u>	<u>\$ -</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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

***Nature of Operations and Reporting Entity***

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

***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 from the county and city, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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. At December 31, 2018 and 2017, there were no cash equivalents.

**Medicine Lodge Memorial Hospital**  
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**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Noncapital Appropriations – County and City***

The Hospital received approximately 7% and 6% of its financial support from noncapital appropriations derived from property and sales taxes in 2018 and 2017, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations from the county derived from property taxes is recognized in the year for which the taxes are levied.

Appropriations derived from sales tax revenue are recognized based on sales tax collected by the Township's retailers in the Hospital's accounting period.

***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. 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 within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for the 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.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Noncurrent Cash and Investments***

As of December 31, 2018 and 2017, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

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

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

***Compensated Absences***

Hospital policies permit most employees to accumulate vacation 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. 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 balances of any outstanding 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, including amounts deposited with trustees as required by bond indentures, 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.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government entity, 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 for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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 (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. 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.

***Revisions***

Certain immaterial revisions have been made to the 2017 statement of cash flows related to receipts from and on behalf of patients. The revisions had no effect on the changes in net position.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 2: Net Patient Service Revenue**

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

*Medicare.* The Hospital is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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.

Approximately 73% and 79% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ending December 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.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

**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.

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, 2018 and 2017, none of the Hospital's bank balances of \$1,653,232 and \$864,160, respectively, were exposed to custodial credit risk.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Summary of Carrying Values**

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 1,623,027	\$ 777,571
Petty cash	800	800
	<u>\$ 1,623,827</u>	<u>\$ 778,371</u>
Included in the following balance sheet captions		
Cash in current assets	\$ 1,236,538	\$ 370,719
Designated by Board of Trustees	387,189	400,852
Restricted by donors	100	6,800
	<u>\$ 1,623,827</u>	<u>\$ 778,371</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:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 1,246,414	\$ 860,226
Medicaid	25,871	35,767
Blue Cross	95,316	126,437
Other third-party payers	190,391	215,992
Self-pay	422,521	428,041
	<u>1,980,513</u>	<u>1,666,463</u>
Less allowance for uncollectible accounts	<u>(184,966)</u>	<u>(334,745)</u>
	<u>\$ 1,795,547</u>	<u>\$ 1,331,718</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 7,579	\$ -	\$ -	\$ -	\$ 7,579
Land improvements	231,999	-	-	-	231,999
Buildings	10,550,817	-	-	-	10,550,817
Fixed equipment	1,632,836	-	-	-	1,632,836
Major moveable equipment	2,520,696	164,766	152,800	-	2,532,662
	<u>14,943,927</u>	<u>164,766</u>	<u>152,800</u>	<u>-</u>	<u>14,955,893</u>
Less accumulated depreciation					
Land improvements	92,301	17,199	-	-	109,500
Buildings	3,019,563	577,633	-	-	3,597,196
Fixed equipment	776,716	84,466	-	-	861,182
Major moveable equipment	2,071,113	153,748	152,800	-	2,072,061
	<u>5,959,693</u>	<u>833,046</u>	<u>152,800</u>	<u>-</u>	<u>6,639,939</u>
Capital Assets, Net	<u>\$ 8,984,234</u>	<u>\$ (668,280)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,315,954</u>
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 7,579	\$ -	\$ -	\$ -	\$ 7,579
Land improvements	231,999	-	-	-	231,999
Buildings	10,482,929	88,693	20,805	-	10,550,817
Fixed equipment	1,632,836	-	-	-	1,632,836
Major moveable equipment	2,514,746	5,950	-	-	2,520,696
	<u>14,870,089</u>	<u>94,643</u>	<u>20,805</u>	<u>-</u>	<u>14,943,927</u>
Less accumulated depreciation					
Land improvements	75,102	17,199	-	-	92,301
Buildings	2,469,433	570,935	20,805	-	3,019,563
Fixed equipment	689,552	87,164	-	-	776,716
Major moveable equipment	1,900,033	171,080	-	-	2,071,113
	<u>5,134,120</u>	<u>846,378</u>	<u>20,805</u>	<u>-</u>	<u>5,959,693</u>
Capital Assets, Net	<u>\$ 9,735,969</u>	<u>\$ (751,735)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,984,234</u>



**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 6: Accounts Payable and Accrued Expenses**

Accounts payable and expenses included in current liabilities at December 31 consisted of:

	<b>2018</b>	<b>2017</b>
Payable to suppliers and contractors	\$ 200,706	\$ 243,869
Payable to employees (including payroll taxes and benefits)	483,327	504,161
	\$ 684,033	\$ 748,030

**Note 7: 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 future.

**Note 8: Long-term Debt**

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

	<b>2018</b>					
	<b>Beginning</b>				<b>Ending</b>	<b>Current</b>
	<b>Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b>	<b>Portion</b>	
Public Building Commission bonds payable - 2011	\$ 202,250	\$ -	\$ 19,500	\$ 182,750	\$ 20,250	
USDA Hospital Refunding Revenue Bond Series 2014	4,135,571	-	129,767	4,005,804	134,146	
Capital lease obligations	84,898	96,524	34,443	146,979	45,507	
	\$4,422,719	\$ 96,524	\$ 183,710	\$4,335,533	\$ 199,903	

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 221,000	\$ -	\$ 18,750	\$ 202,250	\$ 19,500
USDA Hospital Refunding Revenue Bond Series 2014	4,261,101	-	125,530	4,135,571	129,767
Capital lease obligations	169,119	-	84,221	84,898	28,670
	\$4,651,220	\$ -	\$ 228,501	\$4,422,719	\$ 177,937

**Public Building Commission Bonds Payable – 2011**

The Public Building Commission bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds Series 2011 in the original amount of \$6,000,000 dated July 20, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments beginning September 1, 2012 through September 1, 2026. Semiannual interest only payments are due beginning March 1, 2012 through March 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be		
	Paid	Principal	Interest
2019	\$ 27,196	\$ 20,250	\$ 6,946
2020	26,810	20,500	6,310
2021	26,990	21,500	5,490
2022	26,986	22,250	4,736
2023	27,180	23,250	3,930
2024 - 2027	81,080	75,000	6,080
	\$ 216,242	\$ 182,750	\$ 33,492

**USDA Hospital Refunding Revenue Bond Series 2014**

The USDA Hospital Refunding Revenue Bond Series 2014 bond payable was issued September 15, 2014, in the amount of \$4,500,000 and bears interest at 3.375%. Principal and interest payments began September 15, 2015, and extend through September 15, 2039.

**Medicine Lodge Memorial Hospital**  
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**Notes to Financial Statements**  
**December 31, 2018 and 2017**

The Hospital's debt service requirements for the USDA bond as of December 31, 2018, are as follows:

Year Ending December 31,	<b>Total to be</b>		
	<b>Paid</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 269,342	\$ 134,146	\$ 135,196
2020	269,342	138,674	130,668
2021	269,342	143,354	125,988
2022	269,342	148,192	121,150
2023	269,342	153,193	116,149
2024-2028	1,346,711	847,102	499,609
2029-2033	1,346,711	1,000,030	346,681
2034-2038	1,346,710	1,180,565	166,145
2039	269,339	260,548	8,791
	<u>\$ 5,656,181</u>	<u>\$ 4,005,804</u>	<u>\$ 1,650,377</u>

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital leases follows:

	<b>2018</b>	<b>2017</b>
Equipment	\$ 255,315	\$ 539,468
Accumulated depreciation	<u>(107,606)</u>	<u>(453,452)</u>
	<u>\$ 147,709</u>	<u>\$ 86,016</u>

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates from 3.75% to 6.00%, together with the present value of the future minimum lease payments as of December 31:

2019	\$ 51,048
2020	46,861
2021	25,924
2022	21,629
2023	14,422
Total minimum lease payments	<u>159,884</u>
Less amounts representing interest	<u>12,905</u>
Present value of future minimum lease payments	<u>\$ 146,979</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 9: Pension Plan**

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$136,335 and \$220,839 during 2018 and \$134,744 and \$234,189 during 2017, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled \$80,665 and \$65,821 during 2018 and 2017, respectively. The plan year begins on January 1 and ends December 31.

**Note 10: Management Agreement**

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. The terms of the agreements vary from one to seven years and can be cancelled 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 the Hospital for the years ended December 31, 2018 and 2017, were \$836,565 and \$791,565, respectively. Amounts due to GPHA at December 31, 2018 and 2017, totaled \$0 and \$65,325, 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 \$783,531 and \$762,296 for the years ending December 31, 2018 and 2017, 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.