

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Independent Auditor's Report and Financial Statements
June 30, 2018 and 2017



Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017, and elected to carry the beneficial interest at the 2013 fair value. The impact of this matter on the 2018 and 2017 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, 2018 and 2017, 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, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 2,116,724	\$ 1,487,953
Patient accounts receivable, net of allowance; 2018 - \$427,210, 2017 - \$353,833	1,401,275	923,196
Estimated amounts due from Medicare	185,000	1,110,000
Property taxes receivable	12,908	11,724
Supplies	198,875	167,939
Prepaid expenses and other	63,231	39,169
Total current assets	3,978,013	3,739,981
 Noncurrent Cash and Investments		
Designated by Board of Directors for capital acquisitions	215,861	175,771
Held by Foundation for capital acquisitions	683,096	871,887
Held by trustee for debt service	491,471	427,262
Time restricted trust assets	29,092	30,632
Irrevocable trust	392,450	392,450
	1,811,970	1,898,002
 Capital Assets, Net		
	7,535,885	7,667,788
Total assets	\$ 13,325,868	\$ 13,305,771

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 202,867	\$ 205,411
Accounts payable	414,988	471,793
Salaries payable	191,667	165,293
Payroll taxes payable	42,598	37,974
Vacation benefits payable	81,946	95,287
Accrued interest payable	156,747	159,019
Deferred property tax revenue	378,965	334,406
	<hr/>	<hr/>
Total current liabilities	1,469,778	1,469,183
	<hr/>	<hr/>
Long-term Debt	6,845,812	6,855,081
	<hr/>	<hr/>
Total liabilities	8,315,590	8,324,264
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	487,206	607,296
Restricted - expendable for		
Debt service	491,471	427,262
Capital acquisitions	683,096	871,887
Restricted - nonexpendable for		
Time restricted trust	29,092	30,632
Irrevocable trust	392,450	392,450
Unrestricted	2,926,963	2,651,980
	<hr/>	<hr/>
Total net position	5,010,278	4,981,507
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 13,325,868</u>	<u>\$ 13,305,771</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, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$92,069, 2017 - \$15,032	\$ 6,611,332	\$ 6,603,765
Prairie Plaza	129,381	139,464
340B drug program	311,644	280,992
Other	91,954	36,526
Total operating revenues	7,144,311	7,060,747
Operating Expenses		
Salaries and wages	3,184,953	2,960,999
Employee benefits	762,055	749,410
Purchased services and professional fees	1,639,397	1,391,391
Supplies and other	1,522,231	1,705,586
Depreciation	844,008	834,798
Total operating expenses	7,952,644	7,642,184
Operating Loss	(808,333)	(581,437)
Nonoperating Revenues (Expenses)		
Property taxes	770,957	672,216
Investment income	25,315	20,993
Interest expense	(247,500)	(250,092)
Noncapital grants and gifts	117,297	225,850
Total nonoperating revenues	666,069	668,967
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts	(142,264)	87,530
Capital Grants and Gifts	171,035	207,701
Increase in Net Position	28,771	295,231
Net Position, Beginning of Year	4,981,507	4,686,276
Net Position, End of Year	\$ 5,010,278	\$ 4,981,507

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,058,253	\$ 5,458,829
Payments to suppliers and contractors	(4,033,134)	(3,959,335)
Payments to employees	(3,171,920)	(2,970,202)
Other receipts	532,979	456,982
	<u>386,178</u>	<u>(1,013,726)</u>
Noncapital Financing Activities		
Property taxes supporting operations	814,332	681,321
Noncapital grants and gifts	117,297	225,850
	<u>931,629</u>	<u>907,171</u>
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	156,722	-
Purchase of capital assets	(652,105)	(261,716)
Principal paid on long-term debt	(228,535)	(223,886)
Interest paid on long-term debt	(247,500)	(250,092)
Capital grants and gifts	359,826	138,757
	<u>(611,592)</u>	<u>(596,937)</u>
Investing Activities		
Interest income received	26,855	22,519
	<u>26,855</u>	<u>22,519</u>
Increase (Decrease) in Cash and Cash Equivalents	733,070	(680,973)
Cash and Cash Equivalents, Beginning of Year	<u>2,090,986</u>	<u>2,771,959</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,824,056</u>	<u>\$ 2,090,986</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 2,116,724	\$ 1,487,953
Noncurrent cash	707,332	603,033
	<u>\$ 2,824,056</u>	<u>\$ 2,090,986</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (808,333)	\$ (581,437)
Depreciation	844,008	834,798
Provision for uncollectible accounts	92,069	15,032
Changes in operating assets and liabilities		
Patient accounts receivable, net	(570,148)	30,032
Estimated amounts due from and to Medicare	925,000	(1,190,000)
Supplies	(30,936)	(2,906)
Other assets	(24,062)	42,409
Accounts payable and accrued expenses	(41,420)	(161,654)
	\$ 386,178	\$ (1,013,726)
 Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ 60,000	\$ 159,028
Capital assets purchases in accounts payable	\$ -	\$ 191,231
Decrease in fair value of the time restricted trust	\$ (1,540)	\$ (1,526)

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, 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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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 2018 and 8% in 2017 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, 2018 and 2017

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, 2018 and 2017.

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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2018 and 2017

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.

Approximately 68% and 75% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 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.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, respectively, \$1,677,462 and \$1,385,501 of the Health Center's bank balances of \$2,943,337 and \$2,210,589 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution	\$ 1,677,462	\$ 1,385,501

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 2,824,056	\$ 2,090,761
Petty cash	-	225
	\$ 2,824,056	\$ 2,090,986
Included in the following balance sheet captions		
Cash	\$ 2,116,724	\$ 1,487,953
Noncurrent cash and investments		
Designated by Board of Directors for capital acquisitions	215,861	175,771
Held by trustee for debt service	491,471	427,262
	\$ 2,824,056	\$ 2,090,986

Rawlins County Health Center
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Notes to Financial Statements
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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>2018</u>	<u>2017</u>
Medicare	\$ 862,843	\$ 648,948
Medicaid	32,681	28,873
Blue Cross	304,626	62,606
Other third-party payers	154,689	58,946
Self-pay	473,646	477,656
	<u>1,828,485</u>	<u>1,277,029</u>
Less provision for uncollectible accounts	<u>(427,210)</u>	<u>(353,833)</u>
Patient accounts receivable, net	<u>\$ 1,401,275</u>	<u>\$ 923,196</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 \$683,096 and \$871,887 at June 30, 2018 and 2017, respectively.

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, 2018 and 2017, 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 2018 and 2017 financial statements has not been determined. Trust income distributed to the Health Center was \$15,000 and \$12,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, was provided to the Health Center by the trustee. Based on market conditions that existed at June 30, 2018 and 2017, management deemed the fair value as of June 30, 2013, to approximate fair value as of June 30, 2018 and 2017.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2018 and 2017

Note 7: Capital Assets

Capital assets activity for the years ended June 30 was:

	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>
	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 14,705	\$ -	\$ -	\$ -	\$ 14,705
Land improvements	974,469	36,175	-	-	1,010,644
Buildings	9,584,823	-	-	-	9,584,823
Fixed equipment	1,973,607	-	-	-	1,973,607
Moveable equipment	1,498,700	327,961	(15,950)	-	1,810,711
Construction in progress	-	247,839	-	-	247,839
	<u>14,046,304</u>	<u>611,975</u>	<u>(15,950)</u>	<u>-</u>	<u>14,642,329</u>
Less accumulated depreciation					
Land improvements	496,606	53,864	-	-	550,470
Buildings	3,511,398	473,857	-	-	3,985,255
Fixed equipment	969,599	118,219	-	-	1,087,818
Moveable equipment	1,178,090	188,858	(15,950)	-	1,350,998
	<u>6,155,693</u>	<u>834,798</u>	<u>(15,950)</u>	<u>-</u>	<u>6,974,541</u>
Capital Assets, Net	<u>\$ 7,890,611</u>	<u>\$ (222,823)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,667,788</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2018 and 2017

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.

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:

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2012 Revenue						
Bonds payable	\$ 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>

	2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2012 Revenue						
Bonds payable	\$ 6,909,125	\$ -	\$ 94,056	\$ 6,815,069	\$ 97,348	\$ 6,717,721
Capital lease obligations	216,225	159,028	129,830	245,423	108,063	137,360
	<u>\$ 7,125,350</u>	<u>\$ 159,028</u>	<u>\$ 223,886</u>	<u>\$ 7,060,492</u>	<u>\$ 205,411</u>	<u>\$ 6,855,081</u>

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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.

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 Health Center is obligated under leases for equipment at various interest rates with maturities ranging from fiscal years 2019 to 2023.

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:

	2018	2017
Debt service	\$ 252,605	\$ 224,796
Bond reserve funds	238,866	202,466
	\$ 491,471	\$ 427,262

The debt service requirements of revenue bonds payable as of June 30, 2018, are as follows:

Year Ending June 30,	Total	Principal	Interest
2019	\$ 335,875	\$ 100,755	\$ 235,120
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
2024-2028	1,679,374	641,699	1,037,675
2029-2033	1,679,374	762,137	917,237
2034-2038	1,679,375	905,180	774,195
2039-2043	1,679,375	1,075,070	604,305
2044-2048	1,679,376	1,276,847	402,529
2049-2053	1,679,376	1,516,494	162,882
	\$ 11,755,625	\$ 6,717,721	\$ 5,037,904

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The debt service requirements of note payable to Foundation as of June 30, 2018, are as follows:

Year Ending June 30,	Total	Principal	Interest
2019	\$ 31,344	\$ 31,344	\$ -
2020	31,344	31,344	-
2021	31,344	31,344	-
2022	31,344	31,344	-
2023	15,674	15,674	-
	<u>\$ 141,050</u>	<u>\$ 141,050</u>	<u>\$ -</u>

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, 2018:

Year Ending June 30,	Total	Principal	Interest
2019	78,483	\$ 70,768	\$ 7,715
2020	37,020	32,030	4,990
2021	34,319	30,684	3,635
2022	34,320	32,019	2,301
2023	25,410	24,407	1,003
	<u>\$ 209,552</u>	<u>\$ 189,908</u>	<u>\$ 19,644</u>

The following is an analysis of the financial presentation of the capitalized leases at June 30:

	2018	2017
Equipment	\$ 1,063,396	\$ 901,444
Less accumulated depreciation	816,465	714,872
	<u>\$ 246,931</u>	<u>\$ 186,572</u>

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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. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan (March 1, 1976) to the employee's normal retirement date. Employer contributions up to the social security taxable wage base are 100% vested. Additional employer contributions will vest after three years of service with 100% vesting after five years of service. Contributions actually made by plan members and the Health Center each aggregated \$241,691 and \$241,427 during 2018 and 2017, respectively.

Note 11: 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 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: 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. Fees incurred for the various services provided by GPHA to the Health Center for the years ended June 30, 2018 and 2017, were \$54,476 and \$282,003, 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, 2018, were \$45,833.

Note 13: 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 \$311,644 and \$280,992 for the years ending June 30, 2018 and 2017, respectively. The Health Center recorded expenses of \$147,789 and \$174,923 for the years ending June 30, 2018 and 2017, 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.

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, 2017

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenue	\$ 7,075,768	\$ 5,940,253	\$ 1,135,515
Other revenue	<u>476,144</u>	<u>465,533</u>	<u>10,611</u>
Total operating revenue	<u>7,551,912</u>	<u>6,405,786</u>	<u>1,146,126</u>
Operating expenses	7,337,292	8,116,810	(779,518)
Interest paid	<u>253,057</u>	<u>-</u>	<u>253,057</u>
Operating expenses	<u>7,590,349</u>	<u>8,116,810</u>	<u>(526,461)</u>
Operating loss	<u>(38,437)</u>	<u>(1,711,024)</u>	<u>1,672,587</u>
Property tax revenue	707,166	725,096	(17,930)
Other nonoperating revenues	<u>372,251</u>	<u>666,764</u>	<u>(294,513)</u>
Total nonoperating revenues	<u>1,079,417</u>	<u>1,391,860</u>	<u>(312,443)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,040,980</u>	<u>\$ (319,164)</u>	<u>\$ 1,360,144</u>