

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



Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Ellsworth County Medical Center
Ellsworth, Kansas

We have audited the accompanying financial statements of Ellsworth County Medical Center (Medical Center), a component unit of Ellsworth 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 Ellsworth County Medical 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth County Medical Center as of June 30, 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 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
December 10, 2018

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Balance Sheets
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	\$ 1,454,715	\$ 468,786
Patient accounts receivable, net of allowance; 2018 - \$968,103; 2017 - \$110,213	2,955,779	3,159,078
Estimated amounts due from third-party payers	721,119	1,224,732
Supplies	172,207	204,256
Prepaid expenses and other	198,168	262,930
Total current assets	5,501,988	5,319,782
Noncurrent Cash and Investments		
Designated by Board of Trustees	1,076,491	1,163,907
Restricted by donors	28,197	26,526
Investment in equity investee	-	338,171
	1,104,688	1,528,604
Capital Assets, Net	2,560,284	2,931,072
Other Assets		
Advances to medical students	117,436	88,213
Total assets	\$ 9,284,396	\$ 9,867,671

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 502,131	\$ 271,016
Accounts payable	507,064	662,861
Accrued salaries payable	328,770	291,923
Accrued benefits payable	504,297	425,266
Other accrued liabilities	461,277	409,804
	<hr/>	<hr/>
Total current liabilities	2,303,539	2,060,870
Long-term Debt	<u>666,903</u>	<u>381,335</u>
Total liabilities	<u>2,970,442</u>	<u>2,442,205</u>
Net Position		
Net investment in capital assets	1,391,250	2,278,721
Restricted - expendable for		
Specific operating activities	28,197	26,526
Unrestricted	4,894,507	5,120,219
	<hr/>	<hr/>
Total net position	6,313,954	7,425,466
Total liabilities and net position	<u>\$ 9,284,396</u>	<u>\$ 9,867,671</u>

Ellsworth County Medical Center
A Component Unit of Ellsworth 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 – \$744,174; 2017 – \$137,136	\$ 13,629,911	\$ 14,397,457
Other	1,842,398	2,053,381
	15,472,309	16,450,838
Operating Expenses		
Salaries and wages	8,611,805	8,288,456
Employee benefits	1,946,511	1,918,781
Supplies and other	5,647,933	5,964,424
Depreciation	859,112	773,154
	17,065,361	16,944,815
	(1,593,052)	(493,977)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Ellsworth County	224,340	224,340
Investment income	35,489	35,771
Interest expense	(44,101)	(16,835)
Loss on disposal of capital assets	(7,950)	-
Gain (loss) on investment in equity investee	(172,000)	245,226
Noncapital grants and gifts	252,009	24,944
Impairment gain, net of insurance recoveries	193,753	-
	481,540	513,446
Increase (Decrease) in Net Position	(1,111,512)	19,469
Net Position, Beginning of Year	7,425,466	7,405,997
Net Position, End of Year	\$ 6,313,954	\$ 7,425,466

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

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	\$ 14,336,823	\$ 12,377,480
Payments to suppliers	(5,706,919)	(5,491,682)
Payments to employees	(10,390,965)	(10,133,602)
Other receipts, net	1,813,175	2,041,755
Net cash provided by (used in) operating activities	52,114	(1,206,049)
Noncapital Financing Activities		
Noncapital appropriations - Ellsworth County	224,340	224,340
Noncapital grants and gifts	252,009	24,944
Net cash provided by noncapital financing activities	476,349	249,284
Capital and Related Financing Activities		
Purchases of capital assets	(496,274)	(923,949)
Proceeds from insurance recoveries	193,753	-
Proceeds from issuance of long-term debt	1,073,251	200,000
Principal paid on long-term debt	(556,568)	(194,384)
Interest paid on long-term debt	(44,101)	(16,835)
Net cash provided by (used in) capital and related financing activities	170,061	(935,168)
Investing Activities		
Investment income	35,489	35,771
Purchases of investments	(200,846)	(203,389)
Proceeds from disposition of investments	303,072	498,424
Distribution from equity investee	166,171	-
Net cash provided by investing activities	303,886	330,806
Increase (Decrease) in Cash	1,002,410	(1,561,127)
Cash, Beginning of Year	550,308	2,111,435
Cash, End of Year	\$ 1,552,718	\$ 550,308

Ellsworth County Medical Center
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Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,454,715	\$ 468,786
Cash in noncurrent cash and investments	98,003	81,522
Total cash	\$ 1,552,718	\$ 550,308
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,593,052)	\$ (493,977)
Depreciation	859,112	773,154
Provision for uncollectible accounts	744,174	137,136
Change in operating assets and liabilities		
Patient accounts receivable	(540,875)	(1,093,518)
Estimated amounts due from third-party payers	503,613	(1,063,595)
Supplies	32,049	33,838
Prepaid expenses and other	64,762	(11,882)
Advances to medical students	(29,223)	(11,626)
Accounts payable	(155,797)	450,786
Accrued salaries payable	36,847	31,125
Accrued benefits payable	79,031	44,206
Other accrued liabilities	51,473	(1,696)
Net cash provided by (used in) operating activities	\$ 52,114	\$ (1,206,049)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ -	\$ 57,350

Ellsworth County Medical Center
A Component Unit of Ellsworth 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

Ellsworth County Medical Center (Medical Center) is a short-term acute care facility that is a component unit and an integral part of the overall reporting entity of Ellsworth County, Kansas. The Medical Center was organized and began operations on August 1, 1993, to provide inpatient and outpatient health care services for the benefit of the community. The Medical Center is operated by a Board of Trustees appointed by the County Commissioners of Ellsworth County, Kansas.

Basis of Accounting and Presentation

The financial statements of the Medical 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 (principally 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical 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, 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 Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

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Noncapital Appropriations – Ellsworth County

The Medical Center receives approximately 1% of its financial support from noncapital appropriations from Ellsworth County property tax levy. One hundred percent of these appropriations were used to support operations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Ellsworth County is recognized in full in the year in which use is first permitted.

Risk Management

The Medical 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 claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims up to \$35,000 per individual for 2018 and 2017. Claims in excess of \$35,000 per individual for 2018 and 2017 or \$1,000,000 aggregate Medical Center claims are covered through a reinsurance policy. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

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

Ellsworth County Medical Center
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Noncurrent Cash and Investments and Investment Income

Noncurrent cash and investments include designated assets set aside by the Board of Trustees for future capital improvements, education and physician recruitment, 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 that are restricted for operating purposes, capital purposes and debt service. The funds are primarily invested in certificates of deposit and money market accounts. The investment in equity investee is reported on the equity method of accounting.

Investment income includes dividend and interest income.

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 Medical Center:

Land improvements	15 years
Building	40 years
Fixed equipment	7 – 25 years
Major moveable equipment	5 – 20 years

The Medical Center reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets. The Medical Center realized an impairment gain, net of insurance recoveries of \$193,753 as of the year ended June 30, 2018, which is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses and changes in net position.

Compensated Absences

The Medical Center 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 whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay 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.

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Net Position

Net position of the Medical Center 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 donors external to the Medical Center. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical 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 Medical 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 Medical 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 Ellsworth County, Kansas, the Medical 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. The Medical Center has obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Medical Center's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Medical Center 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.

The Medical Center has recognized \$0 and \$59,403 in incentive payment revenue under the Medicare and Medicaid programs, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position as of the years ended June 30, 2018 and 2017, respectively.

Note 2: Net Patient Service Revenue

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

Medicare. The Medical Center is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and certain 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. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center 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.

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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 71% and 62% of net patient service revenue 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.

The Medical 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 Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Medical 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, \$1,612,837 and \$674,134 of the Medical Center's bank balances of \$2,612,837 and \$1,776,799 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by the pledging financial institution in the Medical Center's name and an irrevocable letter of credit	<u>\$ 1,612,837</u>	<u>\$ 674,134</u>

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Notes to Financial Statements
June 30, 2018 and 2017

Summary of Carrying Values

The carrying values of deposits (excluding petty cash) shown above are included in the balance sheets as follows:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,454,160	\$ 468,786
Noncurrent cash and investments	<u>1,104,688</u>	<u>1,190,433</u>
	<u>\$ 2,558,848</u>	<u>\$ 1,659,219</u>

As of June 30, 2018 and 2017, noncurrent cash and investments are comprised of certificates of deposit with remaining maturities of less than one year.

Note 4: Patient Accounts Receivable

The Medical Center 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 June 30, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 2,171,821	\$ 1,931,703
Medicaid	79,446	40,034
Blue Cross	420,392	618,807
Other third-party payers	467,630	426,898
Patients	<u>784,593</u>	<u>251,849</u>
	3,923,882	3,269,291
Less allowance for uncollectible accounts	<u>(968,103)</u>	<u>(110,213)</u>
	<u>\$ 2,955,779</u>	<u>\$ 3,159,078</u>

Ellsworth County Medical Center
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Notes to Financial Statements
June 30, 2018 and 2017

Note 5: Investment in Equity Investee

The investment in equity investee relates to an approximate 0% and 13% ownership of Community Holdings, LLC as of June 30, 2018 and 2017, respectively. The Medical Center received distributions of \$166,171 in 2018 and terminated their investment in equity investee. Community Holdings, LLC does issue separate financial statements. Financial position and results of operations of the investee are summarized below as of June 30, 2017:

	2017
Cash and cash equivalents	\$ 1,163,009
Net risk premium funds withheld	2,934,514
Other assets	67,188
Total assets	4,164,711
Incurred but not reported	1,293,365
Other liabilities	191,523
Total liabilities	1,484,888
Members' equity	\$ 2,679,823
Gross captive premium income	\$ 1,474,542
Gains incurred, net	547,280
Underwriting and administrative expenses	(315,315)
Other expenses	(134,922)
Net income	\$ 1,571,585

Ellsworth County Medical Center
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Notes to Financial Statements
June 30, 2018 and 2017

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 56,240	\$ -	\$ -	\$ -	\$ 56,240
Land improvements	370,763	-	-	-	370,763
Buildings	3,843,045	15,117	(113,033)	-	3,745,129
Fixed equipment	600,185	121,890	-	-	722,075
Moveable equipment	5,620,946	23,139	(605,415)	91,661	5,130,331
Construction in progress	85,300	336,128	-	(91,661)	329,767
	<u>10,576,479</u>	<u>496,274</u>	<u>(718,448)</u>	<u>-</u>	<u>10,354,305</u>
Less accumulated depreciation					
Land improvements	361,681	2,380	-	-	364,061
Buildings	3,050,792	110,555	(113,033)	-	3,048,314
Fixed equipment	550,790	20,474	-	-	571,264
Moveable equipment	3,682,144	725,703	(597,465)	-	3,810,382
	<u>7,645,407</u>	<u>859,112</u>	<u>(710,498)</u>	<u>-</u>	<u>7,794,021</u>
Capital Assets, Net	<u>\$ 2,931,072</u>	<u>\$ (362,838)</u>	<u>\$ (7,950)</u>	<u>\$ -</u>	<u>\$ 2,560,284</u>
	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 56,240	\$ -	\$ -	\$ -	\$ 56,240
Land improvements	365,673	5,090	-	-	370,763
Buildings	3,821,287	21,758	-	-	3,843,045
Fixed equipment	600,185	-	-	-	600,185
Moveable equipment	4,268,202	31,684	(207,220)	1,528,280	5,620,946
Construction in progress	1,027,493	586,087	-	(1,528,280)	85,300
	<u>10,139,080</u>	<u>644,619</u>	<u>(207,220)</u>	<u>-</u>	<u>10,576,479</u>
Less accumulated depreciation					
Land improvements	357,827	3,854	-	-	361,681
Buildings	2,882,636	168,156	-	-	3,050,792
Fixed equipment	533,821	16,969	-	-	550,790
Moveable equipment	3,305,189	584,175	(207,220)	-	3,682,144
	<u>7,079,473</u>	<u>773,154</u>	<u>(207,220)</u>	<u>-</u>	<u>7,645,407</u>
Capital Assets, Net	<u>\$ 3,059,607</u>	<u>\$ (128,535)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,931,072</u>

Ellsworth County Medical Center
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Notes to Financial Statements
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Note 7: Long-term Obligations

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

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Note payable to bank	\$ 189,289	\$ -	\$ (189,289)	\$ -	\$ -	\$ -
Capital lease obligations	<u>463,062</u>	<u>1,073,251</u>	<u>(367,279)</u>	<u>1,169,034</u>	<u>502,131</u>	<u>666,903</u>
	<u>\$ 652,351</u>	<u>\$ 1,073,251</u>	<u>\$ (556,568)</u>	<u>\$ 1,169,034</u>	<u>\$ 502,131</u>	<u>\$ 666,903</u>
	2017					
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion	Long-term Portion
Note payable to bank	\$ -	\$ 200,000	\$ (10,711)	\$ 189,289	\$ 70,253	\$ 119,036
Capital lease obligations	<u>589,385</u>	<u>57,350</u>	<u>(183,673)</u>	<u>463,062</u>	<u>200,763</u>	<u>262,299</u>
	<u>\$ 589,385</u>	<u>\$ 257,350</u>	<u>\$ (194,384)</u>	<u>\$ 652,351</u>	<u>\$ 271,016</u>	<u>\$ 381,335</u>

Note Payable to Bank

The note payable to bank is due March 15, 2020, with principal payable monthly and interest at 3.36% payable monthly. The note is secured by certificates of deposit. The note payable was paid in full during 2018.

Ellsworth County Medical Center
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Notes to Financial Statements
June 30, 2018 and 2017

Capital Lease Obligations

The Medical Center is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2018 and 2017, totaled \$2,025,290 and \$952,039, respectively, net of accumulated depreciation of \$1,168,499 and \$456,420, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.49% to 4.95% together with the present value of the future minimum lease payments as of June 30, 2018:

Year Ending June 30,		
2019	\$	544,041
2020		462,839
2021		230,007
Total minimum lease payments		<u>1,236,887</u>
Less amount representing interest		<u>67,853</u>
Present value of future minimum lease payments	\$	<u><u>1,169,034</u></u>

Note 8: Employee Health Claims

Substantially all of the Medical Center’s employees and their dependents are eligible to participate in the Medical Center’s employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$35,000 per covered employee for 2018 and 2017. Claims in excess of \$35,000 per covered employee or \$1,000,000 aggregate Medical Center claims are covered through a reinsurance policy for 2018 and 2017. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center’s estimate will change by a material amount in the near term.

Activity in the Medical Center’s accrued employee health claims liability during 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 78,281	\$ 60,816
Current year claims incurred and changes in estimates for claims incurred in prior years	894,333	761,542
Claims and expenses paid	<u>(853,375)</u>	<u>(744,077)</u>
Balance, end of year	<u>\$ 119,239</u>	<u>\$ 78,281</u>

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Note 9: Medical Malpractice Coverage and Claims

The Medical Center purchases medical malpractice insurance 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 10: Charity Care

Charges excluded from revenue under the Medical Center's charity care policy were \$90,326 and \$91,039 for June 30, 2018 and 2017, respectively. The Medical Center's direct and indirect costs for services and supplies furnished under the Medical Center's charity care policy were approximately \$78,000 and \$73,000 in 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost-to-gross charges to the gross uncompensated charges from the June 30, 2018 and 2017, filed Medicare cost reports.

Note 11: Pension Plans

The Medical Center has a defined contribution plan (401(a) plan) in which all employees of the Medical Center become eligible for participation upon active employment. Employees were required by the plan to contribute 6.42% of their salary to the plan in 2018 and 2017. The employer is also required by the plan to contribute 6.42% of employee salary in 2018 and 2017. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions actually made by plan members and the Medical Center aggregated \$534,744 and \$534,744 during 2018 and \$521,369 and \$521,369 during 2017, respectively.

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In addition, the Medical Center has a 403(b) defined contribution plan in which all employees of the Medical Center become eligible for participation upon active employment. Employees are allowed to contribute any amount to this plan. The employer will match the first \$12 per pay period contributed by the employee. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31. Contributions actually made by plan members and the Medical Center aggregated \$31,928 and \$31,928 during 2018 and \$30,720 and \$30,720 during 2017, respectively.

The Medical Center provides one additional defined contribution plan (457 plan). The Medical Center does not make contributions to the 457 plan. The plan year begins on January 1 and ends December 31.

Note 12: 340B Drug Pricing Program

The Medical Center participates in the 340B Drug Pricing Program (340B Program) enabling the Medical Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Medical Center recorded revenues of \$1,707,398 and \$1,925,332 for the years ending June 30, 2018 and 2017, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Medical Center recorded expenses of \$1,133,593 and \$1,289,258 for the years ending June 30, 2018 and 2017, respectively, which is included in supplies and other in the accompanying statements of revenues and 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: Contingencies

Litigation

In the normal course of business, the Medical Center is from time to time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.