

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Financial Statements

Years Ended December 31, 2018 and 2017

(Together With Independent Auditor's Report)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Index

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jewell County Hospital
Mankato, Kansas:

Report on the Financial Statements

We have audited the accompanying statements of financial position of Jewell County Hospital, a component unit of Jewell County, Kansas, as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise Jewell County Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jewell County 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 conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Component Unit Reporting

As discussed in note 1, the financial statements present only the financial information of Jewell County Hospital and do not purport to, and do not, present fairly the financial position of Jewell County as of December 31, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters Required Supplementary Information

Jewell County Hospital has omitted its 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 the 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.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
June 19, 2019

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Financial Position

December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 256,690	193,970
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of \$67,822 in 2018 and \$101,105 in 2017	522,375	696,005
Other receivables	6,794	-
Supply inventories	36,206	45,910
Prepaid expenses	25,439	29,498
Estimated third-party payor settlements	<u>446,142</u>	<u>210,000</u>
Total current assets	<u>1,293,646</u>	<u>1,175,383</u>
Assets whose use is limited or restricted:		
Internally designated:		
Farmland	184,232	184,232
Board account - cash	291,523	282,414
Property taxes held by Jewell County Treasurer	217,746	195,287
Restricted by donors or grantors - cash	38,139	38,139
Held by trustee - construction funds	<u>362,828</u>	<u>-</u>
Total assets whose use is limited or restricted	<u>1,094,468</u>	<u>700,072</u>
Capital assets	3,238,756	2,946,457
Less accumulated depreciation	<u>2,457,437</u>	<u>2,316,821</u>
Net capital assets	<u>781,319</u>	<u>629,636</u>
	<u>\$ 3,169,433</u>	<u>2,505,091</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current maturities of capital lease obligations	\$ 61,266	69,181
Accounts payable and payroll withholding	231,186	164,369
Accrued expenses - salaries, wages and benefits	<u>218,349</u>	<u>242,438</u>
Total current liabilities	510,801	475,988
Capital lease obligations, excluding current maturities	82,098	143,364
Long-term debt, excluding current maturities	<u>670,650</u>	<u>-</u>
Total liabilities	<u>1,263,549</u>	<u>619,352</u>
Net position:		
Net investment in capital assets	637,955	417,091
Restricted - expendable for capital assets	38,139	38,139
Unrestricted	<u>1,229,790</u>	<u>1,430,509</u>
Total net position	1,905,884	1,885,739
	<u><u>\$ 3,169,433</u></u>	<u><u>2,505,091</u></u>

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient and resident service revenue	\$ 4,770,376	4,773,874
Provision for bad debts	<u>(31,340)</u>	<u>(109,418)</u>
Net patient and resident service revenue, less provision for bad debts	4,739,036	4,664,456
Other revenue	<u>94,513</u>	<u>91,425</u>
Total operating revenues	<u>4,833,549</u>	<u>4,755,881</u>
Operating expenses:		
Salaries and wages	2,798,051	2,767,482
Employee benefits	850,016	823,839
Supplies and other	1,676,797	1,709,736
Depreciation	140,616	141,969
Debt issuance cost	<u>167,450</u>	<u>-</u>
Total operating expenses	<u>5,632,930</u>	<u>5,443,026</u>
Operating loss	<u>(799,381)</u>	<u>(687,145)</u>
Nonoperating revenues and expenses:		
Property tax revenue	774,991	694,199
Farm rental income	27,292	27,292
Interest income	14,240	9,027
Interest expense	(7,205)	(10,005)
EHR incentive	-	77,431
Noncapital grants and contributions	<u>10,208</u>	<u>44,931</u>
Total nonoperating revenues and expenses	<u>819,526</u>	<u>842,875</u>
Excess of revenues over expenses	20,145	155,730
Net position, beginning of year	<u>1,885,739</u>	<u>1,730,009</u>
Net position, end of year	<u>\$ 1,905,884</u>	<u>1,885,739</u>

See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

<u>Increase or Decrease in Cash</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	\$ 4,669,730	4,431,810
Other revenue	94,513	91,425
Cash paid to employees	(3,672,156)	(3,565,396)
Cash paid to suppliers	<u>(1,939,664)</u>	<u>(1,686,055)</u>
Net cash used by operating activities	<u>(847,577)</u>	<u>(728,216)</u>
Cash flows from noncapital financing activities:		
Property taxes received	752,532	616,788
EHR incentive	-	77,431
Noncapital grants and contributions received	<u>10,208</u>	<u>44,931</u>
Net cash provided by noncapital financing activities	<u>762,740</u>	<u>739,150</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(116,302)	(30,138)
Proceeds from the issuance of revenue bonds	670,650	-
Principal payments on capital lease obligations	(69,181)	(69,666)
Interest paid	<u>(7,205)</u>	<u>(10,005)</u>
Net cash provided (used) by capital and related financing activities	<u>477,962</u>	<u>(109,809)</u>
Cash flows from investing activities:		
Interest income received	14,240	9,027
Farm rental income received	<u>27,292</u>	<u>27,292</u>
Net cash provided by investing activities	<u>41,532</u>	<u>36,319</u>
Net increase (decrease) in cash and cash equivalents	434,657	(62,556)
Cash, beginning of year	<u>514,523</u>	<u>577,079</u>
Cash, end of year	<u>\$ 949,180</u>	<u>514,523</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 256,690	193,970
Board designated cash	291,523	282,414
Restricted - construction funds	362,828	-
Restricted by donors and grantors	<u>38,139</u>	<u>38,139</u>
	<u>\$ 949,180</u>	<u>514,523</u>

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Statements of Cash Flows
(Continued)
Years Ended December 31, 2018 and 2017

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2018</u>	<u>2017</u>
Operating loss	\$ (799,381)	(687,145)
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	140,616	141,969
Provision for bad debts	31,340	109,418
Decrease (increase) in:		
Patient and resident accounts receivable	142,290	182,936
Other receivables	(6,794)	-
Inventories	9,704	(4,914)
Prepaid expenses	4,059	(1,563)
Estimated third-party payor settlements	(236,142)	(210,000)
Increase (decrease) in:		
Accounts payable and payroll withholding	(109,180)	30,158
Accrued expenses - salaries, wages and benefits	(24,089)	25,925
Estimated third-party payor settlements	-	(315,000)
Net cash used by operating activities	<u>\$ (847,577)</u>	<u>(728,216)</u>

Supplemental Disclosure of Cash Flows Information

Capital asset additions included in accounts payable	<u>\$ 184,997</u>	<u>9,000</u>
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See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

December 31, 2018 and 2017

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity

These financial statements present only Jewell County Hospital (the Hospital), a political subdivision of the State of Kansas, located in Mankato, Kansas. The Hospital is a component unit of Jewell County, Kansas (the County) and is governed by a Board of Trustees (the Board) appointed by the Jewell County Board of County Commissioners. The Hospital provides acute, intermediate, clinic, and independent living (apartments) services to patients and residents in the Jewell County area.

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 nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes (county appropriations), investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

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Notes to Financial Statements

Intergovernmental revenue

The Hospital received approximately 20% and 16% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2018 and 2017, respectively. All of these funds were used to support operations in both years.

Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Patient and resident accounts receivable and allowance for uncollectibles

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients and residents who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/self-pay patients and residents (which includes both patients and residents without insurance and patients and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients and residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for doubtful accounts for uninsured/self-pay patients and residents fell from approximately \$201,000 at December 31, 2017 to approximately \$170,000 at December 31, 2018, as self-pay and insurance accounts receivable balances at December 31, 2018 were \$28,000 less than at December 31, 2017.

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

Inventories

Supply inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

Assets whose use is limited or restricted

Assets whose use is limited or restricted include funds internally designated by the Board, assets restricted by donors or grantors and debt proceeds held with trustee for construction. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Donor and grant funds are restricted for specific purposes, as determined by the donor or grantor. Funds held by trustee are loan proceeds to be used for the building project further described in note 7.

Capital assets

The Hospital's capital assets are reported at historical cost less accumulated depreciation. Contributed capital assets are reported at their estimated fair value at the time of their donation. Major renewals and improvements that exceed \$5,000 are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the useful life of the respective assets are charged to expense as incurred. All capital assets other than land are depreciated or amortized over the estimated useful lives of the respective assets on the straight-line method. Useful lives are determined using the general guidelines set forth in the American Hospital Association Guide for Estimated Useful lives of Depreciable Hospital Assets. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized. Interest cost incurred on borrowing funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized in either 2018 or 2017.

	<u>Life in Years</u>
Land improvements	15-20
Buildings and improvements	10-40
Fixed equipment	5-20
Moveable equipment	<u>3-20</u>

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The *restricted expendable* component consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The *unrestricted* component of net position is the net amount of the assets and liabilities that are not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Operating revenues and expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services except interest on capital assets-related debt.

Net patient and resident service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates.

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care

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

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

The Hospital estimates the costs associated with providing services under its charity care policy were \$2,144 for the year ended December 31, 2018 and \$2,664 for the year ended December 31, 2017. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient and resident service revenue) to the gross charges forgone under its charity care policy.

Grants and contributions

The Hospital generally receives grants and contributions from various agencies, private organizations, and individuals. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Compensated absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Accumulated PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. The maximum amount of hours to be carried forward is 480. PTO benefits are expensed and accrued as earned under the Hospital's PTO policy, with the vested amount recorded as a current accrued liability. Compensated absence liabilities are computed using regular pay rates for PTO in effect at the balance sheet date.

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted net position balances.

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

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; and natural disasters, medical malpractice and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Estimated malpractice costs

The provision for estimated medical malpractice claims, if any, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(2) Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Hospital is designated as a Critical Access Hospital which generally allows cost-based reimbursement for most Medicare hospital services. Inpatient acute, inpatient nonacute (swing-bed), and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services, reimbursed under a prospectively determined fee-schedule. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2017.

The "Budget Control Act of 2011" requires, among other things, mandatory across the board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments.

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

- **Medicaid:** Inpatient and outpatient services provided to Medicaid beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. That add-on percentage may be rebased at some time in the future.

Approximately 78% and 76% of net patient and resident service revenues for the years ended December 31, 2018 and 2017, respectively, are from combined participation in the Medicare and Medicaid programs. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations under which the basis for payment to the Hospital includes prospectively determined rates per discharge and discounts from established charges.

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

For uninsured patients and residents that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients and residents will be unable or unwilling to pay for the services provided. The Hospital records a significant provision for bad debts related to uninsured patients and residents in the period the services are provided. Additionally, Medicare, Medicaid, and commercial insurance and other gross revenue classifications include the patient and resident responsibility amounts associated with deductibles and/or copayments. The uncollectible portions of the patient and resident responsibility amounts are included in the provision for bad debts. The following schedule provides patient and resident service revenue recognized in the period by major payor source:

	<u>2018</u>	<u>2017</u>
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	\$ 1,210,938	1,576,616
Medicaid	676,004	644,182
Commercial insurance and other	634,240	725,566
Uninsured/self-pay	540,401	556,584
Charity care deductions	<u>(1,201)</u>	<u>(1,759)</u>
Gross patient and resident service revenue (after charity care)	<u>3,060,382</u>	<u>3,501,189</u>
Contractual adjustments:		
Medicare	1,922,721	1,399,289
Medicaid	(78,701)	20,537
Commercial insurance and other	<u>(134,026)</u>	<u>(147,141)</u>
Total contractual adjustments	<u>1,709,994</u>	<u>1,272,685</u>
Net patient and resident service revenue	4,770,376	4,773,874
Provision for bad debts	<u>(31,340)</u>	<u>(109,418)</u>
Net patient and resident service revenue, less provision for bad debts	<u>\$ 4,739,036</u>	<u>4,664,456</u>

(Continued)

JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

(3) Electronic Health Record (EHR) Incentive

Depending on certain criteria, the Hospital can qualify for an EHR incentive payment from the Kansas Department of Health and Environment's Medicaid program. The Medicaid EHR incentive is determined utilizing a base amount of assumed annual EHR costs applied to the Hospital's percentage of Medicaid inpatient days to its total inpatient days. Under the incentive program, the Hospital will receive 50% of the total computed EHR incentive in the first year and then assuming the Hospital continues to meet the required applicable EHR qualifications each year thereafter, it will receive the remaining 30% in year two and 20% in year three.

The Hospital has filed the required supporting data with Medicaid and received a year one EHR incentive payment of \$193,578 in fiscal year 2014, a year two payment of \$116,147 in fiscal year 2016, and a year three payment of \$77,431 in fiscal year 2017. Balances are reported as EHR incentive reimbursement in the applicable fiscal year.

(4) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it in full. The Hospital's policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

The Hospital's bank deposits at December 31, 2018 were entirely insured by federal depository insurance or collateralized by securities held by the financial institution, or its agent, in the Hospital's name as follows:

	<u>2018</u>	<u>2017</u>
Insured by federal depository insurance	\$ 397,183	500,000
Collateralized by securities held by the pledging financial institution in the Hospital's name	<u>189,169</u>	<u>14,523</u>
	<u>\$ 586,352</u>	<u>514,523</u>

The Hospital's cash at December 31, 2018 and 2017 consisted of cash, checking accounts, savings accounts, and funds held by the Jewell County Treasurer recorded at cost which approximates market.

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

The carrying amounts of deposits are included in the Hospital's balance sheet captions as follows at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	\$ 256,690	193,970
Board designated	291,523	282,414
Restricted by donors or grantors	<u>38,139</u>	<u>38,139</u>
	<u>\$ 586,352</u>	<u>514,523</u>

The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

(5) Patient and Resident Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients and residents, many of whom are insured under Medicare and Medicaid third-party payor agreements.

Patient and resident accounts receivable reported as current assets at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Receivable from:		
Patients and residents	\$ 241,139	255,170
Patients and residents' insurance carriers	99,484	113,878
Medicare	189,023	386,001
Medicaid	<u>60,552</u>	<u>42,061</u>
Total patient and resident accounts receivable	<u>590,198</u>	<u>797,110</u>
Allowances for:		
Contractual adjustments	102,181	100,140
Uncollectible accounts	<u>(170,004)</u>	<u>(201,245)</u>
Total allowances	<u>(67,823)</u>	<u>(101,105)</u>
Net patient and resident accounts receivable	<u>\$ 522,375</u>	<u>696,005</u>

(Continued)

JEWELL COUNTY HOSPITAL
A Component Unit of Jewell County, Kansas

Notes to Financial Statements

(6) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include 1) funds internally designated by the Board 2) assets restricted by donors or grantors and 3) funds held by trustee. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Donor and grant funds are restricted for specific purposes, as determined by the donor or grantor. Funds held by trustee are loan proceeds to be used for the building project further described in note 7.

Assets whose use is limited or restricted at December 31, 2018 and 2017 were comprised of the following:

	<u>2018</u>	<u>2017</u>
Internally designated:		
Farmland	\$ 184,232	184,232
Money market account	291,523	282,414
Property taxes held by Jewell County Treasurer	<u>217,746</u>	<u>195,287</u>
Total internally designated assets	<u>\$ 693,501</u>	<u>661,933</u>
Restricted by donors or grantors:		
Money market account - restricted for capital assets	<u>\$ 38,139</u>	<u>38,139</u>
Restricted by trustee,		
Federated Government Obligations, money market account - restricted for capital assets	<u>\$ 362,828</u>	<u>-</u>

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JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

(7) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended December 31, 2018 and 2017 were as follows:

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land	\$ 4,760	-	-	4,760
Land improvements	103,742	-	-	103,742
Buildings and improvements	1,457,015	-	-	1,457,015
Fixed equipment	337,093	-	-	337,093
Moveable equipment	1,028,053	33,309	-	1,061,362
Construction in progress	<u>15,794</u>	<u>258,990</u>	<u>-</u>	<u>274,784</u>
Total historical costs	<u>2,946,457</u>	<u>292,299</u>	<u>-</u>	<u>3,238,756</u>
<u>Less accumulated depreciation</u>				
Land improvements	(75,732)	(4,802)	-	(80,534)
Buildings and improvements	(1,161,997)	(47,635)	-	(1,209,632)
Fixed equipment	(306,597)	(5,948)	-	(312,545)
Moveable equipment	<u>(772,495)</u>	<u>(82,231)</u>	<u>-</u>	<u>(854,726)</u>
Total accumulated depreciation	<u>(2,316,821)</u>	<u>(140,616)</u>	<u>-</u>	<u>(2,457,437)</u>
Net capital assets	<u>\$ 629,636</u>	<u>151,683</u>	<u>-</u>	<u>781,319</u>

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Notes to Financial Statements

	<u>2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2017</u>
<u>Historical costs</u>				
Land	\$ 4,760	-	-	4,760
Land improvements	103,742	-	-	103,742
Buildings and improvements	1,457,015	-	-	1,457,015
Fixed equipment	359,123	-	(22,030)	337,093
Moveable equipment	1,009,453	23,344	(4,744)	1,028,053
Construction in progress	<u>-</u>	<u>15,794</u>	<u>-</u>	<u>15,794</u>
Total historical costs	<u>2,934,093</u>	<u>39,138</u>	<u>(26,774)</u>	<u>2,946,457</u>
<u>Less accumulated depreciation</u>				
Land improvements	(70,930)	(4,802)	-	(75,732)
Buildings and improvements	(1,113,896)	(48,101)	-	(1,161,997)
Fixed equipment	(322,679)	(5,948)	22,030	(306,597)
Moveable equipment	<u>(694,121)</u>	<u>(83,118)</u>	<u>4,744</u>	<u>(772,495)</u>
Total accumulated depreciation	<u>(2,201,626)</u>	<u>(141,969)</u>	<u>26,774</u>	<u>(2,316,821)</u>
Net capital assets	<u>\$ 732,467</u>	<u>(102,831)</u>	<u>-</u>	<u>629,636</u>

Construction in progress at December 31, 2018 consists primarily of architect fees for the design and engineering of a renovation and expansion project of the existing facility. The plan includes additions to the rural health clinic, physical therapy area and emergency department as well as renovations to acute and swing-bed patient rooms. Construction is expected to begin in May of 2019 and be completed in May of 2020. Total project costs are currently estimated at approximately \$8,000,000. The Hospital is using interim financing through revenue anticipation bonds of \$7,500,000 to be purchased by the United States Department of Agriculture (USDA) at the completion of construction and \$500,000 of revenue bonds guaranteed by the USDA. At December 31, 2018, the Hospital has remaining contractual commitments with the architect totaling \$282,173 and the majority of the estimated costs of construction, \$7,500,000.

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Notes to Financial Statements

(8) Long-term Debt

A schedule of changes in the Hospital's long-term debt for the years ended December 31, 2018 and 2017 is as follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Revenue Bonds, Series 2018-A (a)	\$ -	170,650	-	170,650	-
Revenue Bonds, Series 2018-B (b)	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>
Total long- term debt obligations	<u>-</u>	<u>670,650</u>	<u>-</u>	<u>670,650</u>	<u>-</u>
Less current installments	<u>-</u>			<u>-</u>	
Long-term debt, excluding current installments	\$ <u>-</u>			<u>-</u>	

The terms and due dates of the Hospital's long-term debt at December 31, 2018 are as follows:

- (a) \$7,500,000 Jewell County, Kansas Hospital Revenue Bond Anticipation Bonds, Series 2018-A (Series 2018-A Bonds). On December 13, 2018, the Series 2018-A Bonds were issued in the principal amount up to \$7,500,000 to Security Bank of Kansas City (the Bank). The Hospital will draw on the Series 2018-A Bonds as needed to fund the costs of construction of an addition to and improvements, renovations, and equipment for the existing health care facilities of the Hospital as described further in note 7. Draws on the Series 2018-A Bonds will include amounts necessary for related debt issuance costs and capitalized interest incurred during the construction period. The Series 2018-A Bonds are secured by pledged revenues and have a maturity date of December 1, 2020. The Series 2018-A Bonds require interest payments on the outstanding draws at a rate of 4.25% each June 1 and December 1, beginning June 1, 2019. At December 31, 2018, the Hospital had outstanding draws totaling \$170,650.

At maturity, the outstanding amount on the Series 2018-A Bonds will be repaid by the purchase of the bonds by the USDA in an amount not to exceed \$7,500,000. The bonds will require repayment over a period of 35 years and are expected to carry a 3.875% interest rate.

- (b) \$500,000 Jewell County, Kansas, Taxable Hospital Revenue Bonds Series 2018-B (Series 2018-B). The Series 2018-B Bonds were issued on December 13, 2018 for the purpose of paying a portion of the costs of expanding and improving the Hospital, as further described in note 7.

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The Series 2018-B Bonds are payable in annual installments of \$10,000 to \$35,000 from 2021 to 2043. Interest payments are due each June 1 and December 1, beginning June 1, 2019 at an interest rate of 5.25% through December 1, 2023 at which time the rate adjusts to the New York prime commercial lending rate and adjusts on each 5th anniversary thereafter.

Scheduled principal and interest amounts on the Series 2018-B Bonds are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Bonds Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$ -	-	-
2020	-	-	-
2021	10,000	26,250	36,250
2022	10,000	25,725	35,725
2023	15,000	25,200	40,200
2024-2028	75,000	114,188	189,188
2029-2033	100,000	91,875	191,875
2034-2038	130,000	63,000	193,000
2039-2043	<u>160,000</u>	<u>25,988</u>	<u>185,988</u>
Total	<u>\$ 500,000</u>	<u>372,226</u>	<u>872,226</u>

(9) Capital Lease Obligations

A schedule of changes in the Hospital's capital lease obligations for the years ended December 31, 2018 and 2017 is as follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 12,093	-	(2,488)	9,605	2,695
Capital lease payable (c)	20,406	-	(15,215)	5,191	5,191
Capital lease payable (d)	165,487	-	(46,405)	119,082	48,058
Capital lease payable (e)	<u>14,559</u>	<u>-</u>	<u>(5,073)</u>	<u>9,486</u>	<u>5,323</u>
Total capital lease obligations	212,545	<u>-</u>	<u>(69,181)</u>	143,364	<u>61,266</u>
Less current installments	<u>69,181</u>			<u>61,266</u>	
Capital lease obligations, excluding current installments	<u>\$ 143,364</u>			<u>82,098</u>	

(Continued)

JEWELL COUNTY HOSPITAL
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Notes to Financial Statements

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 14,391	-	(2,298)	12,093	2,488
Capital lease payable (b)	3,032	-	(3,032)	-	-
Capital lease payable (c)	35,098	-	(14,692)	20,406	15,215
Capital lease payable (d)	210,296	-	(44,809)	165,487	46,405
Capital lease payable (e)	<u>19,394</u>	<u>-</u>	<u>(4,835)</u>	<u>14,559</u>	<u>5,073</u>
Total capital lease obligations	282,211	<u>-</u>	<u>(69,666)</u>	212,545	<u>69,181</u>
Less current installments	<u>69,666</u>			<u>69,181</u>	
Capital lease obligations, excluding current installments	<u>\$ 212,545</u>			<u>143,364</u>	

The terms and due dates of the Hospital's capital lease obligations, at December 31, 2018 are as follows:

- (a) Capital lease obligation, due in monthly installments of \$280, including interest at an imputed rate of 8.00%; secured by firewall equipment having an original cost basis of \$23,117 and net book value of \$7,898 at December 31, 2018.
- (b) Capital lease obligation, due in monthly installments of \$265, including interest at an imputed rate of 8.87%; secured by a folding machine. The lease was paid off during 2017.
- (c) Capital lease obligation, due in monthly installments of \$1,307, including interest at 3.50%; secured by pharmacy dispensing equipment having an original cost basis of \$78,050 and net book value of \$10,407 at December 31, 2018.
- (d) Capital lease obligation, due in monthly installments of \$4,289 beginning in June 2016, including interest at 3.50%; secured by a CT machine and modular building having an original cost basis of \$261,073 and net book value of \$162,407 at December 31, 2018.
- (e) Capital lease obligation, due in monthly installments of \$472 beginning in November 2015, including interest at 4.82%; secured by a CR imaging system having an original cost basis of \$25,120 and net book value of \$9,211 at December 31, 2018.

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Notes to Financial Statements

Scheduled principal and interest amounts on capital leases are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 61,266	4,455	65,721
2020	56,851	2,226	59,077
2021	24,417	392	24,809
2022	<u>830</u>	<u>11</u>	<u>841</u>
Total	\$ <u>143,364</u>	<u>7,084</u>	<u>150,448</u>

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) which provides \$200,000 of coverage per occurrence and \$600,000 aggregate coverage. 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. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

(11) Deferred Compensation and Defined Contribution Plan

The Hospital maintains a matching deferred compensation plan (457 Plan) for all eligible employees. Eligibility is established by all employees who have completed one year of continuous service. Full-time employees may contribute up to 4% of their gross compensation per year. Part-time employees may contribute up to 2% of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25% of their gross compensation or \$16,500. The Hospital matches employee contributions up to 4% and 2% of eligible compensation for full-time and part-time employees, respectively. Employer and employee contributions vest immediately. Benefits are funded by fixed and variable annuities with an insurance company. Contributions actually made by employees totaled \$81,992 and \$70,496 in 2018 and 2017, respectively. Hospital contributions under both plans totaled \$68,493 and \$62,793 in 2018 and 2017, respectively.

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Notes to Financial Statements

(12) Operating Lease

During 2014, the Hospital began leasing telemetry equipment under a five-year operating lease, with fixed monthly rental payments. Lease expense totaled \$11,375 for 2018 and \$10,500 for 2017. Minimum lease payments remaining under the lease total \$9,450 for the year ending December 31, 2019.

(13) Reclassification

The Hospital's 2017 financial statements have been reclassified to conform with 2018 presentation.