

Kiowa District Hospital

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Kiowa District Hospital
December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Kiowa District Hospital
Kiowa, Kansas

We have audited the accompanying financial statements of Kiowa District Hospital (Hospital), and its discretely presented component unit, Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kiowa District Hospital and its discretely presented component unit as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 12* to the financial statements, in 2018, Friends of Kiowa District Hospital and Manor Foundation, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 that collectively comprise the Hospital's basic financial statements. The Net Patient Service Revenues and Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents are 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

Wichita, Kansas
May 21, 2019

Kiowa District Hospital
Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 1,729,407	\$ 487,332
Patient accounts receivable, net of allowance; 2018 - \$199,000, 2017 - \$344,000	622,953	1,347,098
Supplies	242,431	192,643
Prepaid expenses and other	34,131	52,374
Property taxes receivable	1,018,637	1,061,068
Total current assets	3,647,559	3,140,515
Capital Assets, Net		
	7,344,216	7,731,525
Total assets	\$ 10,991,775	\$ 10,872,040
 Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 210,227	\$ 257,999
Accounts payable	107,511	623,936
Accrued expenses	482,829	274,720
Estimated amounts due to third-party payers	1,335,000	200,000
Total current liabilities	2,135,567	1,356,655
Long-term Debt		
	2,613,176	2,822,036
Total liabilities	4,748,743	4,178,691
Deferred Inflows of Resources - Property Taxes		
	1,018,637	1,061,068
Net Position		
Net investment in capital assets	4,520,813	4,651,490
Unrestricted	703,582	980,791
Total net position	5,224,395	5,632,281
Total liabilities, deferred inflows of resources and net position	\$ 10,991,775	\$ 10,872,040

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash	\$ 154,578	\$ 244,703
Short-term certificate of deposit	100,884	-
Total assets	\$ 255,462	\$ 244,703
 Net Assets		
Without donor restrictions	\$ 255,462	\$ 244,703
Total net assets	\$ 255,462	\$ 244,703

Kiowa District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2018 - \$44,196, 2017 - \$105,660	\$ 7,769,308	\$ 6,318,408
Other	268,314	397,041
Total operating revenues	8,037,622	6,715,449
Operating Expenses		
Salaries and wages	3,531,527	3,202,924
Employee benefits	721,421	666,250
Purchased services and professional fees	2,412,871	2,363,722
Supplies and other	1,278,189	723,870
Drugs	383,277	352,302
Food	82,245	84,690
Insurance	86,383	81,159
Utilities and telephone	192,340	195,822
Repairs and maintenance	177,290	154,795
Depreciation	675,277	658,961
(Gain) loss on disposal of capital assets	(34,021)	31,932
Total operating expenses	9,506,799	8,516,427
Operating Loss	(1,469,177)	(1,800,978)
Nonoperating Revenues (Expenses)		
Property taxes	1,035,363	1,000,016
Interest income	2,797	1,086
Interest expense	(99,011)	(107,213)
Noncapital grants and gifts	122,142	47,954
Total nonoperating revenues	1,061,291	941,843
Decrease in Net Position	(407,886)	(859,135)
Net Position, Beginning of Year	5,632,281	6,491,416
Net Position, End of Year	\$ 5,224,395	\$ 5,632,281

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support		
Contributions	\$ 110,736	\$ 152,640
Interest income	1,015	-
	111,751	152,640
Total revenues, gains and other support		
Expenses		
Contributions to Hospital	23,200	4,000
Contributions to Barber County Health Coalition	75,260	72,200
Fund raising expenses	1,144	1,886
Other expenses	1,388	5,335
	100,992	83,421
Total expenses		
Change in Net Assets	10,759	69,219
Net Assets, Beginning of Year	244,703	175,484
Net Assets, End of Year	\$ 255,462	\$ 244,703

Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 9,628,453	\$ 5,825,780
Payments to suppliers and contractors	(5,123,430)	(3,509,535)
Payments to employees	(4,044,839)	(3,947,659)
Other receipts, net	<u>234,293</u>	<u>428,973</u>
Net cash provided by (used in) operating activities	<u>694,477</u>	<u>(1,202,441)</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,035,363	1,000,016
Noncapital grants and gifts	<u>122,142</u>	<u>47,954</u>
Net cash provided by noncapital financing activities	<u>1,157,505</u>	<u>1,047,970</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(256,632)	(247,407)
Interest paid on long-term debt	(102,125)	(109,988)
Purchase of capital assets	<u>(253,947)</u>	<u>(170,379)</u>
Net cash used in capital and related financing activities	<u>(612,704)</u>	<u>(527,774)</u>
Investing Activities		
Interest income	<u>2,797</u>	<u>1,086</u>
Net cash provided by investing activities	<u>2,797</u>	<u>1,086</u>
Increase (Decrease) in Cash	1,242,075	(681,159)
Cash, Beginning of Year	<u>487,332</u>	<u>1,168,491</u>
Cash, End of Year	<u>\$ 1,729,407</u>	<u>\$ 487,332</u>

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

	2018	2017
Reconciliation of Operating Loss to Net		
Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,469,177)	\$ (1,800,978)
Depreciation	675,277	658,961
(Gain) loss on disposal of capital assets	(34,021)	31,932
Changes in operating assets and liabilities		
Patient accounts receivable, net	724,145	(937,628)
Estimated amounts due from and to third-party payers	1,135,000	445,000
Supplies and prepaid expenses	(31,545)	(5,051)
Accounts payable and accrued expenses	(305,202)	405,323
Net cash provided by (used in) operating activities	\$ 694,477	\$ (1,202,441)

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 10,759	\$ 69,219
Net cash provided by operating activities	10,759	69,219
Investing Activities		
Purchase of certificate of deposit	(100,884)	-
Net cash used in investing activities	(100,884)	-
(Decrease) Increase in Cash	(90,125)	69,219
Cash, Beginning of Year	244,703	175,484
Cash, End of Year	\$ 154,578	\$ 244,703

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations and Reporting Entity

Kiowa District Hospital (the Hospital) was organized to provide acute health care services for the benefit of the community members, primarily in Barber County, Kansas. The Hospital's facilities are operated by a Board of Directors elected by the qualified voters of the Hospital District. The Hospital Division primarily earns revenues by providing inpatient and outpatient services to residents of Barber County, Kansas, and the surrounding communities. In addition, residential long-term care services are provided under a separate license by the Manor Division (Manor) of the Hospital's operations.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange 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 Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Hospital had no cash equivalents.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Property Taxes

The Hospital received approximately 11% in 2018 and 13% in 2017 of its financial support from property taxes. One hundred percent (100%) of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based on the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

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 at their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 40 years
Buildings	5 – 56 years
Fixed equipment	3 – 43 years
Major moveable equipment	3 – 15 years

Kiowa District Hospital

Notes to Financial Statements

December 31, 2018 and 2017

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Compensated Absences

Hospital 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. Sick leave benefits are realized as paid time off and 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.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Hospital are classified in two components. Net investment in capital assets consist 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. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2018 and 2017

Charity Care

The Hospital provides care at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Foundation

Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the Hospital in support of its programs. The five to seven member board of the Foundation is self-perpetuating and consists of area business and community members.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefits of the Hospital. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Hospital and for the benefit of patients served by the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2018 and 2017, the Foundation distributed \$23,200 and \$4,000 funds to the Hospital, respectively.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

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 are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the

Kiowa District Hospital

Notes to Financial Statements

December 31, 2018 and 2017

Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Note 2: Net Patient Service Revenues

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

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

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

Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 81% and 78% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Note 3: Deposits

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2018 and 2017, respectively, \$1,158,804 and \$0 of the Hospital's bank balances of \$2,118,580 and \$794,871 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the District's name	<u>\$ 1,158,804</u>	<u>\$ -</u>

Summary of Carrying Values

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

	2018	2017
Carrying value Deposits	<u>\$ 1,729,407</u>	<u>\$ 487,332</u>
Included in the following balance sheet captions Cash	<u>\$ 1,729,407</u>	<u>\$ 487,332</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2018 and 2017, consisted of:

	2018	2017
Medicare	\$ 387,934	\$ 1,044,918
Medicaid	58,458	96,526
Blue Cross	70,289	62,026
Other third-party payers	53,887	65,826
Patients	251,385	421,802
	<u>821,953</u>	<u>1,691,098</u>
Less allowance for uncollectible accounts	<u>199,000</u>	<u>344,000</u>
	<u><u>\$ 622,953</u></u>	<u><u>\$ 1,347,098</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017, was:

	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	81,521	-	-	81,521
Buildings	7,010,997	10,086	-	7,021,083
Fixed equipment	1,793,951	-	-	1,793,951
Major moveable equipment	2,459,708	243,861	(65,491)	2,638,078
	<u>11,385,044</u>	<u>253,947</u>	<u>(65,491)</u>	<u>11,573,500</u>
Less accumulated depreciation				
Land improvements	20,608	7,613	-	28,221
Buildings	1,158,237	269,781	-	1,428,018
Fixed equipment	660,507	163,020	-	823,527
Major moveable equipment	1,814,167	234,863	(99,512)	1,949,518
	<u>3,653,519</u>	<u>675,277</u>	<u>(99,512)</u>	<u>4,229,284</u>
Capital Assets, Net	<u><u>\$ 7,731,525</u></u>	<u><u>\$ (421,330)</u></u>	<u><u>\$ 34,021</u></u>	<u><u>\$ 7,344,216</u></u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

	2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	81,521	-	-	81,521
Buildings	7,012,761	83,095	(84,859)	7,010,997
Fixed equipment	1,787,840	6,111	-	1,793,951
Major moveable equipment	2,378,535	81,173	-	2,459,708
	<u>11,299,524</u>	<u>170,379</u>	<u>(84,859)</u>	<u>11,385,044</u>
Less accumulated depreciation				
Land improvements	12,995	7,613	-	20,608
Buildings	943,247	267,917	(52,927)	1,158,237
Fixed equipment	497,594	162,913	-	660,507
Major moveable equipment	1,593,649	220,518	-	1,814,167
	<u>3,047,485</u>	<u>658,961</u>	<u>(52,927)</u>	<u>3,653,519</u>
Capital Assets, Net	<u>\$ 8,252,039</u>	<u>\$ (488,582)</u>	<u>\$ (31,932)</u>	<u>\$ 7,731,525</u>

Note 6: Accounts Payable and Accrued Expenses

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

	2018	2017
Payable to suppliers and contractors	\$ 107,511	\$ 623,936
Payable to or on behalf of employees (including payroll taxes and benefits)	420,156	208,933
Bond interest payable	62,673	65,787
	<u>\$ 590,340</u>	<u>\$ 898,656</u>

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2018 and 2017:

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 144,000	\$ -	\$ 12,750	\$ 131,250	\$ 13,250
USDA Hospital Refunding Revenue Bond Series 2014	2,665,000	-	120,000	2,545,000	125,000
Capital lease obligations	271,035	-	123,882	147,153	71,977
Total long-term debt	<u>\$ 3,080,035</u>	<u>\$ -</u>	<u>\$ 256,632</u>	<u>\$ 2,823,403</u>	<u>\$ 210,227</u>
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 156,250	\$ -	\$ 12,250	\$ 144,000	\$ 12,750
USDA Hospital Refunding Revenue Bond Series 2014	2,780,000	-	115,000	2,665,000	120,000
Capital lease obligations	391,192	-	120,157	271,035	125,249
Total long-term debt	<u>\$ 3,327,442</u>	<u>\$ -</u>	<u>\$ 247,407</u>	<u>\$ 3,080,035</u>	<u>\$ 257,999</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Public Building Commission Bonds Payable – 2012

The Public Building Commission (PBC) bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds, Series 2012, in the original amount of \$4,000,000 dated August 15, 2012, which bear interest at 2.0% to 3.0%. The bonds are payable in annual installments beginning September 1, 2013 through September 1, 2027. Semiannual interest only payments are due beginning March 1, 2013 through September 1, 2027. In connection with the issuance of the bonds, the Hospital has entered into a sublease with Barber County, Kansas. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

The Hospital’s debt service requirements for the PBC bonds as of December 31, 2018, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 16,616	\$ 13,250	\$ 3,366
2020	16,468	13,500	2,968
2021	16,564	14,000	2,564
2022	16,516	14,250	2,266
2023	16,678	14,750	1,928
2024-2027	<u>65,530</u>	<u>61,500</u>	<u>4,030</u>
	<u>\$ 148,372</u>	<u>\$ 131,250</u>	<u>\$ 17,122</u>

USDA Hospital Refunding Bond Series 2014

On April 15, 2014, the Kiowa District Hospital issued United States Department of Agriculture (USDA) Hospital Refunding Revenue Bond, Series 2014, under the USDA Rural Development program in the amount of \$3,000,000 and bearing interest at 3.375%. Principal and interest payments under this issue began April 15, 2015, and extend through April 15, 2034. The bonds are secured by a pledge of the gross revenues of the Hospital.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 210,894	\$ 125,000	\$ 85,894
2020	206,675	125,000	81,675
2021	207,456	130,000	77,456
2022	208,069	135,000	73,069
2023	208,513	140,000	68,513
2024-2028	1,043,313	775,000	268,313
2029-2033	1,043,588	915,000	128,588
2034	206,750	200,000	6,750
	<u>\$ 3,335,258</u>	<u>\$ 2,545,000</u>	<u>\$ 790,258</u>

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2018 and 2017, totaled \$639,578 and \$639,578, respectively, net of accumulated depreciation of \$512,820 and \$389,252, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates between 3.08% to 5.09% with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	
2019	\$ 77,755
2020	49,103
2021	29,571
Total minimum lease payments	<u>156,429</u>
Less amount representing interest	<u>9,276</u>
Present value of future minimum lease payments	<u>\$ 147,153</u>

Note 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were \$26,446 and \$39,599 for 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.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Note 10: Pension Plan

The Hospital is the trustee of a 457(b) deferred compensation plan covering substantially all employees. Plan contributions are made by participating employees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employer contributions to the plan were \$39,802 and \$38,084 for the years ended December 31, 2018 and 2017, respectively. The fair market value of employee investments at December 31, 2018 and 2017, were \$983,040 and \$945,482, respectively. These amounts are not reported as assets or liabilities of the Hospital.

Note 11: Future Change in Accounting Principle

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

Note 12: Friends of Kiowa District Hospital and Manor Foundation, Inc.

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for the support of health and health care programs for the Hospital.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2018 and 2017

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At December 31, 2018 and 2017, there were no net assets with donor restrictions.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Foundation had no cash equivalents.

Certificate of Deposit

The Foundation reports certificates of deposits at amortized cost.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations have not been reflected in the financial statements.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2018 and 2017

Revenues, Gains and Other Support

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Related Entity

The Foundation works closely with the Hospital. Facilities and start-up funds were provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees/Directors.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at both December 31, 2018 and 2017.

Change in Accounting Principle

In 2018, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

These changes had no impact on previously reported total change in net assets.

Supplementary Information

Kiowa District Hospital
Net Patient Service Revenues
Years Ended December 31, 2018 and 2017

	2018	2017
Hospital Revenues		
Inpatient	\$ 1,597,061	\$ 899,064
Outpatient	3,000,736	2,141,300
Clinic Revenues	618,033	833,151
Long-term Care Facility Revenues	1,409,981	1,144,189
Subtotal	6,625,811	5,017,704
Plus Contractual Adjustments	1,187,693	1,406,364
Less Provision for Uncollectible Accounts	(44,196)	(105,660)
Net Patient Service Revenues	\$ 7,769,308	\$ 6,318,408

Kiowa District Hospital
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2018

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenues	\$ 9,628,453	\$ 7,226,556	\$ 2,401,897
Other revenue	268,314	381,090	(112,776)
Total revenues	<u>9,896,767</u>	<u>7,607,646</u>	<u>2,289,121</u>
Operating expenses	9,684,438	9,705,883	(21,445)
Interest paid	102,125	-	102,125
Operating expenses	<u>9,786,563</u>	<u>9,705,883</u>	<u>80,680</u>
Operating loss	<u>110,204</u>	<u>(2,098,237)</u>	<u>2,208,441</u>
Property taxes revenue	1,035,363	1,061,068	(25,705)
Other nonoperating revenues	<u>124,939</u>	<u>41,855</u>	<u>83,084</u>
Total nonoperating revenues	<u>1,160,302</u>	<u>1,102,923</u>	<u>57,379</u>
Excess (deficiency) of revenues over expenses	<u><u>\$ 1,270,506</u></u>	<u><u>\$ (995,314)</u></u>	<u><u>\$ 2,265,820</u></u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.