

Satanta Hospital District

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Satanta Hospital District

December 31, 2017 and 2016

Contents

Independent Auditor's Report.....	1
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Financial Statements

Balance Sheets.....	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	7

Supplementary Information

Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget.....	18
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Independent Auditor's Report

Board of Trustees
Satanta Hospital District
Satanta, Kansas

We have audited the accompanying financial statements of Satanta Hospital District (the Hospital), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Satanta Hospital District'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 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 Satanta Hospital District as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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 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 Satanta Hospital District's basic financial statements. The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget 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. Such information has been subjected to the auditing procedures applied in the audit 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 and the Kansas Municipal Audit and Accounting Guide. 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
June 13, 2018

Satanta Hospital District
Balance Sheets
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 1,845,302	\$ 2,453,601
Restricted cash	46,833	56,806
Patient accounts receivable, net of allowance; 2017 – \$398,919, 2016 – \$210,680	1,214,801	1,233,058
Estimated amounts due from third-party payers	271,000	216,189
Property taxes receivable	2,486,077	2,339,531
Supplies	408,920	374,956
Prepaid expenses and other	<u>230,804</u>	<u>242,025</u>
Total current assets	<u>6,503,737</u>	<u>6,916,166</u>
 Capital Assets, Net	 <u>6,074,710</u>	 <u>5,790,440</u>
Total assets	<u><u>\$ 12,578,447</u></u>	<u><u>\$ 12,706,606</u></u>

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 463,246	\$ 375,128
Accounts payable	246,754	384,806
Accrued salaries and wages and related deductions	419,207	404,834
Accrued vacation	271,759	321,831
Accrued interest	13,515	17,681
Total current liabilities	1,414,481	1,504,280
Long-term Debt	1,140,434	1,198,180
Total liabilities	2,554,915	2,702,460
Deferred Inflows of Resources		
Unearned revenue - current property taxes	2,479,531	2,339,531
Net Position		
Net investment in capital assets	4,471,030	4,217,132
Restricted - expendable for		
Capital acquisitions	16,535	23,997
Employee activities	2,671	1,682
Grant activities	7,597	7,685
Scholarships	30	3,442
Nonexpendable permanent endowments	20,000	20,000
Unrestricted	3,026,138	3,390,677
Total net position	7,544,001	7,664,615
Total liabilities, deferred inflows of resources and net position	\$ 12,578,447	\$ 12,706,606

Satanta Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue	\$ 7,923,244	\$ 8,110,564
Retail pharmacy	1,395,705	1,520,011
Independent living	229,253	223,947
Other	113,273	184,275
	<hr/>	<hr/>
Total operating revenues	9,661,475	10,038,797
	<hr/>	<hr/>
Operating Expenses		
Salaries and wages	5,974,302	5,995,517
Employee benefits	1,485,256	1,542,908
Supplies and other	4,374,915	4,514,758
Depreciation	643,479	678,171
	<hr/>	<hr/>
Total operating expenses	12,477,952	12,731,354
	<hr/>	<hr/>
Operating Loss	(2,816,477)	(2,692,557)
	<hr/>	<hr/>
Nonoperating Revenues (Expenses)		
Property taxes	2,448,750	2,631,667
Interest income	9,462	5,291
Interest expense	(54,988)	(71,451)
Noncapital grants and gifts	52,654	32,802
	<hr/>	<hr/>
Total nonoperating revenues	2,455,878	2,598,309
	<hr/>	<hr/>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(360,599)	(94,248)
	<hr/>	<hr/>
Capital Grants and Gifts	239,985	28,970
	<hr/>	<hr/>
Decrease in Net Position	(120,614)	(65,278)
	<hr/>	<hr/>
Net Position, Beginning of Year	7,664,615	7,729,893
	<hr/>	<hr/>
Net Position, End of Year	<u>\$ 7,544,001</u>	<u>\$ 7,664,615</u>

Satanta Hospital District
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,886,690	\$ 8,465,821
Payments to suppliers	(6,020,966)	(5,977,294)
Payments to employees	(6,010,001)	(6,065,595)
Other receipts, net	<u>1,738,231</u>	<u>1,928,233</u>
Net cash used in operating activities	<u>(2,406,046)</u>	<u>(1,648,835)</u>
Noncapital Financing Activities		
Property taxes supporting operations	2,018,854	2,212,029
Noncapital grants and gifts	<u>52,654</u>	<u>32,802</u>
Net cash provided by noncapital financing activities	<u>2,071,508</u>	<u>2,244,831</u>
Capital and Related Financing Activities		
Capital grants and gifts	239,985	28,970
Principal paid on long-term debt	(407,233)	(385,647)
Interest payments on long-term debt	(59,154)	(75,501)
Property taxes to retire debt and acquisitions of capital assets	423,350	419,638
Purchase of capital assets	<u>(490,144)</u>	<u>(193,645)</u>
Net cash used in capital and related financing activities	<u>(293,196)</u>	<u>(206,185)</u>
Investing Activities		
Interest income	<u>9,462</u>	<u>5,291</u>
Net cash provided by investing activities	<u>9,462</u>	<u>5,291</u>
Increase (Decrease) in Cash	(618,272)	395,102
Cash, Beginning of Year	<u>2,510,407</u>	<u>2,115,305</u>
Cash, End of Year	<u>\$ 1,892,135</u>	<u>\$ 2,510,407</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,845,302	\$ 2,453,601
Restricted cash in current assets	<u>46,833</u>	<u>56,806</u>
Total cash	<u>\$ 1,892,135</u>	<u>\$ 2,510,407</u>

Satanta Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (2,816,477)	\$ (2,692,557)
Depreciation	643,479	678,171
Provision for uncollectible accounts	386,405	257,141
Changes in operating assets and liabilities		
Patient accounts receivable	(368,148)	(355,859)
Estimated amounts due from and to third-party payers	(54,811)	453,975
Accounts payable and accrued expenses	(173,751)	105,171
Other assets and liabilities	<u>(22,743)</u>	<u>(94,877)</u>
Net cash used in operating activities	<u><u>\$ (2,406,046)</u></u>	<u><u>\$ (1,648,835)</u></u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 437,605	\$ -

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

The Satanta Hospital District (the Hospital) is a tax levying municipality which operates as the Satanta District Hospital located in Satanta, Kansas. The Hospital is a health care facility organized as a district hospital pursuant to K.S.A. 80-2502 and includes the operation of the hospital and long-term care unit, Satanta clinic and Sublette clinic. They are operated from facilities owned or leased by the Satanta Hospital District.

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, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources 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. There are no cash equivalents at December 31, 2017 and 2016.

Budgetary Principles

The Hospital is required by state statutes to adopt an annual budget for the unrestricted funds on or before August 25 for the ensuing year. The Hospital's Board of Trustees may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of expenditures of the fund which is prepared on a calendar year basis.

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted unrestricted funds, representing purchase orders, contracts and other commitments, are reported as a charge to the current budget year. All unencumbered appropriations lapse at the end of the year.

Property Taxes

The Hospital received approximately 20% and 21% of its financial support from property taxes in 2017 and 2016, respectively. These funds were used as follows:

	2017	2016
Percentage used to support operations	83%	84%
Percentage used for debt service	17%	16%
	<u>100%</u>	<u>100%</u>

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes are levied, which is the year in which use is first permitted.

Risk Management

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

Patient Accounts Receivable

The 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 market.

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

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 Hospital:

Land improvements	5-20 years
Buildings	5-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied for use in future periods.

Net Position

Net position of the Hospital is classified in four components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by grantors or donors external to the Hospital. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

Included in unrestricted net position is Board designated funds set aside for capital acquisitions over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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.

Charity Care

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

Income Taxes

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recorded revenue under the Medicaid EHR program of \$0 and \$44,273 for the years ended December 31, 2017 and 2016, respectively, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position.

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care and 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 fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

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

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to July 1, 2016, rates were computed using an average of the 2011, 2012 and 2013 cost reports. Rates are adjusted twice annually on July 1 and January 1 for changes in the Medicaid resident case mix index (CMI) using the simple average of the CMI from the two preceding quarters. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 cost reports. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively.

Approximately 79% and 77% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

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

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016, respectively, none of the Hospital's bank balances of \$1,987,484 and \$2,545,556 were exposed to custodial credit risk.

Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits	\$ 1,889,485	\$ 2,507,757
Petty cash	2,650	2,650
	<u>\$ 1,892,135</u>	<u>\$ 2,510,407</u>
Included in the following balance sheet captions		
Cash	\$ 1,845,302	\$ 2,453,601
Restricted cash	46,833	56,806
	<u>\$ 1,892,135</u>	<u>\$ 2,510,407</u>

Note 4: Patient Accounts Receivable

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

	2017	2016
Medicare	\$ 500,579	\$ 473,943
Medicaid	90,330	44,479
Blue Cross	103,656	122,605
Other third-party payers	196,932	110,336
Patients	722,223	692,375
	<u>1,613,720</u>	<u>1,443,738</u>
Less allowance for uncollectible accounts	<u>(398,919)</u>	<u>(210,680)</u>
	<u>\$ 1,214,801</u>	<u>\$ 1,233,058</u>

Satanta Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 185,886	\$ -	\$ -	\$ -	\$ 185,886
Land improvements	339,056	-	-	-	339,056
Buildings	11,633,518	-	-	318,353	11,951,871
Fixed equipment	2,101,314	-	-	90,272	2,191,586
Major moveable equipment	2,293,661	545,927	(448,224)	-	2,391,364
Construction in progress	26,803	381,822	-	(408,625)	-
	<u>16,580,238</u>	<u>927,749</u>	<u>(448,224)</u>	<u>-</u>	<u>17,059,763</u>
Less accumulated depreciation					
Land improvements	171,098	20,570	-	-	191,668
Buildings	7,024,218	389,254	-	-	7,413,472
Fixed equipment	1,623,417	64,783	-	-	1,688,200
Major moveable equipment	1,971,065	168,872	(448,224)	-	1,691,713
	<u>10,789,798</u>	<u>643,479</u>	<u>(448,224)</u>	<u>-</u>	<u>10,985,053</u>
Capital Assets, Net	<u>\$ 5,790,440</u>	<u>\$ 284,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,074,710</u>

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 185,886	\$ -	\$ -	\$ -	\$ 185,886
Land improvements	339,056	-	-	-	339,056
Buildings	11,633,518	-	-	-	11,633,518
Fixed equipment	2,092,714	8,600	-	-	2,101,314
Major moveable equipment	2,135,419	158,242	-	-	2,293,661
Construction in progress	-	26,803	-	-	26,803
	<u>16,386,593</u>	<u>193,645</u>	<u>-</u>	<u>-</u>	<u>16,580,238</u>
Less accumulated depreciation					
Land improvements	144,997	26,101	-	-	171,098
Buildings	6,609,743	414,475	-	-	7,024,218
Fixed equipment	1,559,538	63,879	-	-	1,623,417
Major moveable equipment	1,797,349	173,716	-	-	1,971,065
	<u>10,111,627</u>	<u>678,171</u>	<u>-</u>	<u>-</u>	<u>10,789,798</u>
Capital Assets, Net	<u>\$ 6,274,966</u>	<u>\$ (484,526)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,790,440</u>

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: Medical Malpractice Coverage and Claims

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

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

Note 7: Long-term Obligations

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

2017						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
General obligation bonds	\$ 1,540,000	\$ -	\$ 365,000	\$ 1,175,000	\$ 375,000	\$ 800,000
Capital lease obligations	15,237	437,605	34,740	418,102	82,689	335,413
Plus bond premium	18,071	-	7,493	10,578	5,557	5,021
	<u>\$ 1,573,308</u>	<u>\$ 437,605</u>	<u>\$ 407,233</u>	<u>\$ 1,603,680</u>	<u>\$ 463,246</u>	<u>\$ 1,140,434</u>

2016						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
General obligation bonds	\$ 1,895,000	\$ -	\$ 355,000	\$ 1,540,000	\$ 365,000	\$ 1,175,000
Capital lease obligations	36,510	-	21,273	15,237	2,635	12,602
Plus bond premium	27,445	-	9,374	18,071	7,493	10,578
	<u>\$ 1,958,955</u>	<u>\$ -</u>	<u>\$ 385,647</u>	<u>\$ 1,573,308</u>	<u>\$ 375,128</u>	<u>\$ 1,198,180</u>

Satanta Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

General Obligation Bonds

The General Obligation Bonds payable consist of Satanta Hospital District General Obligation Bonds Series 2010A and Satanta Hospital District General Obligation Bonds Series 2011.

The Series 2010A general obligation bonds are direct obligations of the Hospital in the original amount of \$2,000,000 dated October 7, 2010, which bear interest at 2.0% to 3.5%. The bonds are payable in annual installments of principal with semiannual interest payments through September 1, 2020.

The Series 2011 general obligation bonds are direct obligations of the Hospital in the original amount of \$1,500,000 dated March 9, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments of principal with semiannual interest payments through September 1, 2020.

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 415,544	\$ 375,000	\$ 40,544
2019	417,694	390,000	27,694
2020	424,344	410,000	14,344
	<u>\$ 1,257,582</u>	<u>\$ 1,175,000</u>	<u>\$ 82,582</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2017 and 2016, totaled \$425,835 and \$12,691, respectively, net of accumulated depreciation of \$37,584 and \$359,209, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 5.44% to 8.00% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	\$ 103,597
2019	103,910
2020	103,910
2021	103,910
2022	58,422
Total minimum lease payments	<u>473,749</u>
Less amount representing interest	<u>55,647</u>
Present value of future minimum lease payments	<u>\$ 418,102</u>

Satanta Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Note 8: Pension Plans

Deferred Contribution Plan – 401(a) Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who are at least 21 years of age and have completed one or more years of service. Employer contributions are computed at the rate of 2% of annual compensation for all employees. The employer also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defer into the deferred compensation plan as described below. No employee contributions are permitted to the 401(a) plan. Contributions actually made by the Hospital aggregated \$170,170 and \$201,788 during 2017 and 2016, respectively.

Deferred Compensation Plan – 457 Plan

The Hospital maintains a deferred compensation plan (457 Plan) for all employees. Employees are eligible to participate in the 457 Plan on their first day of employment. The Hospital does not make contributions to the 457 Plan.

Note 9: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements cover the period of one year and can be canceled with 90 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2017 and 2016, were \$570,641 and \$502,009, respectively. Amounts due to GPHA at December 31, 2017 and 2016, totaled \$1,989 and \$38,471, respectively.

Note 10: Great Plains Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through

Satanta Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. During 2016, the Hospital was assessed approximately \$205,000, which was paid in full as of December 31, 2016. No further assessments were required during 2017.

Supplementary Information

Satanta Hospital District

Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget

Year Ended December 31, 2017

	Actual	Tax Budget	Actual Over (Under) Budget
General Fund:			
Property taxes	\$ 1,946,847	\$ 1,920,060	\$ 26,787
Interest	<u>3,398</u>	<u>4,400</u>	<u>(1,002)</u>
Total revenue	1,950,245	1,924,460	25,785
Transfer to hospital operations	<u>1,917,000</u>	<u>2,249,413</u>	<u>(332,413)</u>
Excess (deficiency) of revenue over expenditures	33,245	<u><u>\$ (324,953)</u></u>	<u><u>\$ 358,198</u></u>
Unencumbered cash, beginning of year	<u>67,963</u>		
Unencumbered cash, end of year	<u><u>\$ 101,208</u></u>		
Debt Service Fund:			
Property taxes	\$ 423,350	\$ 419,471	\$ 3,879
Interest	<u>485</u>	<u>463</u>	<u>22</u>
Total revenue	<u>423,835</u>	<u>419,934</u>	<u>3,901</u>
Bond principal	365,000	365,000	-
Interest	48,877	53,044	(4,167)
Other	<u>4,167</u>	<u>20,125</u>	<u>(15,958)</u>
Total expenditures	<u>418,044</u>	<u>438,169</u>	<u>(20,125)</u>
Excess (deficiency) of revenue over expenditures	5,791	<u><u>\$ (18,235)</u></u>	<u><u>\$ 24,026</u></u>
Unencumbered cash, beginning of year	<u>13,574</u>		
Unencumbered cash, end of year	<u><u>\$ 19,365</u></u>		