

**Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas**

Independent Auditor's Report and Financial Statements

September 30, 2018 and 2017



Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
September 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Board of Trustees of Ottawa County Health Center
Minneapolis, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Ottawa County Health Center, a component unit of Ottawa County, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Board of Trustees of Ottawa County Health Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 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 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 the Board of Trustees of Ottawa County Health Center as of September 30, 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.

Required Supplementary Information

The Board of Trustees has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
December 5, 2018

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Balance Sheets
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	\$ 773,132	\$ 666,521
Other	143	41
	<hr/>	<hr/>
Total current assets	773,275	666,562
Endowment	117,621	110,055
Capital Assets, Net	<hr/> 1,654,622	<hr/> 1,758,984
Total assets	<hr/> <u>\$ 2,545,518</u>	<hr/> <u>\$ 2,535,601</u>
 Net Position		
Restricted nonexpendable permanent endowments	\$ 101,360	\$ 101,360
Unrestricted	<hr/> 2,444,158	<hr/> 2,434,241
Total net position	<hr/> <u>\$ 2,545,518</u>	<hr/> <u>\$ 2,535,601</u>

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenues		
Noncapital appropriations - Ottawa County	\$ 480,660	\$ 504,613
Rent	97,080	97,080
Total operating revenues	577,740	601,693
Operating Expenses		
Depreciation	104,362	104,362
Other	1,420	1,358
Total operating expenses	105,782	105,720
Operating Income	471,958	495,973
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	107,177	66,580
Investment income	10,963	9,093
Loss on investment in equity investee	-	(2,384)
Contributions to Hospital for operations	(114,401)	(93,053)
Total nonoperating (revenues) expenses	3,739	(19,764)
Excess of Revenues Over Expenses	475,697	476,209
Contributions to Hospital for Property and Equipment	(465,780)	(581,513)
Contributions from Ottawa County of Property and Equipment	-	1,863,346
Increase in Net Position	9,917	1,758,042
Net Position, Beginning of Year	2,535,601	777,559
Net Position, End of Year	\$ 2,545,518	\$ 2,535,601

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from Ottawa County	\$ 480,660	\$ 504,613
Other receipts and payments, net	95,660	118,713
Net cash provided by operating activities	576,320	623,326
Noncapital Financing Activities		
Noncapital grants and gifts	107,177	66,580
Contribution to Hospital for operations	(114,401)	(93,053)
Net cash used in noncapital financing activities	(7,224)	(26,473)
Capital and Related Financing Activities		
Contributions to Hospital for property and equipment	(465,780)	(581,513)
Net cash used in capital and related financing activities	(465,780)	(581,513)
Investing Activities		
Distributions from equity investee	-	108,676
Interest in investments	3,295	607
Net cash provided by investing activities	3,295	109,283
Increase in Cash	106,611	124,623
Cash, Beginning of Year	666,521	541,898
Cash, End of Year	\$ 773,132	\$ 666,521
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating income	\$ 471,958	\$ 495,973
Depreciation expense	104,362	104,362
Changes in operating assets and liabilities		
Accounts receivable	-	22,991
Net cash provided by operating activities	\$ 576,320	\$ 623,326
Noncash Investing, Capital and Financing Activities		
Loss on investment in equity investee	\$ -	\$ 2,384
Contributions from Ottawa County of property and equipment	\$ -	\$ 1,863,346

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2018 and 2017

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

Nature of Operations and Reporting Entity

The Board of Trustees of Ottawa County Health Center (Board of Trustees) was organized by the County Commissioners of Ottawa County to operate a governmental hospital and to control the use of noncapital appropriations. The Board of Trustees is appointed by the County Commissioners of Ottawa County. The Board of Trustees is considered to be a component unit of Ottawa County.

Great Plains of Ottawa County, Inc. (GPOC/Hospital) is located in Minneapolis, Kansas and provides acute, swing-bed, head trauma care and long-term care services under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. seq. with the Board of Trustees (*Note 2*). The operations of GPOC are reported on separately from the Board of Trustees due to this lease arrangement.

Basis of Accounting and Presentation

The financial statements of the Board of Trustees 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 transactions take place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include noncapital appropriations and exchange transactions. Noncapital grants and gifts, investment income (loss) and contributions to Hospital for operations are included in nonoperating revenues (expenses). The Board of Trustees 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.

Board of Trustees of Ottawa County Health Center
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Notes to Financial Statements
September 30, 2018 and 2017

Cash Equivalents

The Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents.

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. The following estimated useful lives are being used by the Board of Trustees:

Land improvements	15 years
Buildings	10 – 30 years

Noncapital Appropriations – Ottawa County

The Board of Trustees receives noncapital appropriations from Ottawa County property tax levy. Property taxes are assessed on a calendar year basis and are received beginning in January 1 of each year. Revenue from noncapital appropriations is recognized in full in the year for which use is first permitted.

Net Position

Net position of the Board of Trustees is classified in two components. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Board of Trustees, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of restricted net position.

Income Taxes

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

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2018 and 2017

Note 2: Lease and Management Agreement

The Board of Trustees controls facilities, including buildings, as well as equipment and other assets, which are owned by Ottawa County, Kansas, and leased to GPOC by the Board of Trustees. The lease agreement provides that GPOC will assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. The original lease term was for a period of 5 years through December 18, 2005, with two renewal option periods of five years each, which ended December 18, 2015. GPOC extended the lease agreement through additional renewal options. The Board of Trustees leases the hospital facilities to GPOC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPOC, has a management agreement with GPOC. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPOC upon commencement of the original term, December 18, 2000. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the Board of Trustees.

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 Board of Trustees' 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.

As of September 30, 2018 and 2017, respectively, \$497,585 and \$404,900 of the Board of Trustees' bank balances of \$773,132 and \$666,521 were exposed to custodial credit risk as follows:

	2018	2017
Uninsured and collateral held on behalf of the pledging financial institution in the Board of Trustees' name	\$ 497,585	\$ 404,900
Bank Balances	\$ 773,132	\$ 666,521

Board of Trustees of Ottawa County Health Center
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Notes to Financial Statements
September 30, 2018 and 2017

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 773,132	\$ 666,521
Included in the following balance sheet captions		
Cash	\$ 773,132	\$ 666,521

Note 4: Investment in Equity Investee

The Board of Trustees was a 50% member of Ottawa County Property Management, LLC (OCPM). Distributions of \$108,676 were made to the Board of Trustees in 2017. The OCPM was dissolved during 2017.

Note 5: Endowment and Restricted Net Position

The endowment is the Board of Trustees' interest in a trust at a local bank established for the benefit of GPOC. The principal is invested in debt and equity securities which are reported and measured at fair market value using the net asset value per share and have not been classified in the fair value hierarchy. Kansas law permits the local bank to authorize for expenditure the net appreciation of the investments in the endowment unless the contributor provides for specific instructions. The contributor of the endowment has instructed that distributions from the trust to the Board of Trustees by the local bank are unrestricted and can only be made from the investment income generated by the trust. The principal balance in the trust is restricted to investment in perpetuity.

The local bank authorizes distributions from the endowment as available. Net appreciation of \$7,566 and \$8,481 at September 30, 2018 and 2017, respectively, is included in the accompanying statements of revenues, expenses and changes in net position.

Board of Trustees of Ottawa County Health Center
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Notes to Financial Statements
September 30, 2018 and 2017

Note 6: Capital Assets

Capital assets activity for the years ended September 30 was:

	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 95,855	\$ -	\$ -	\$ 95,855
Buildings	1,767,491	-	-	1,767,491
	<u>1,863,346</u>	<u>-</u>	<u>-</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	(6,391)	(6,390)	-	(12,781)
Buildings	(97,971)	(97,972)	-	(195,943)
	<u>(104,362)</u>	<u>(104,362)</u>	<u>-</u>	<u>(208,724)</u>
Capital Assets, Net	<u>\$ 1,758,984</u>	<u>\$ (104,362)</u>	<u>\$ -</u>	<u>\$ 1,654,622</u>
	2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ -	\$ 95,855	\$ -	\$ 95,855
Buildings	52,012	1,767,491	(52,012)	1,767,491
	<u>52,012</u>	<u>1,863,346</u>	<u>(52,012)</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	-	(6,391)	-	(6,391)
Buildings	(52,012)	(97,971)	52,012	(97,971)
	<u>(52,012)</u>	<u>(104,362)</u>	<u>52,012</u>	<u>(104,362)</u>
Capital Assets, Net	<u>\$ -</u>	<u>\$ 1,758,984</u>	<u>\$ -</u>	<u>\$ 1,758,984</u>

Board of Trustees of Ottawa County Health Center
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Note 7: General Obligation Hospital Bonds

On October 1, 2014, Ottawa County, Kansas issued the General Obligation Hospital Bonds, Series 2014 (the bonds) in an amount not to exceed \$5,000,000 in order to pay a portion of the estimated \$5,100,000 costs to make improvements to the Ottawa County Health Center in Minneapolis, Kansas consisting of: (i) construction of a new physicians clinic to be attached to the hospital; (ii) remodel and expand lab and x-ray areas (add space for CT scanner); (iii) remodel and expand the emergency room; (iv) add an operating/procedure room; (v) remodel acute care patient rooms, including providing private bathrooms and showers; (vi) remodel and provide additional long-term care patient rooms; (vii) update original plumbing and electrical systems; and (viii) all other necessary improvements appurtenant thereto the project; and (ix) pay costs of issuance and interest on said general obligation hospital bonds of Ottawa County during construction. The balance of the costs of the project shall be paid from hospital funds. Construction related to the physicians clinic and the hospital was complete as of September 30, 2017. Ottawa County transferred property and equipment to the Board of Trustees totaling \$1,863,346 during 2017. Ottawa County transferred property and equipment totaling \$305,500 to GPOC during 2017. No transfers were made during 2018.