

**Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas**

Independent Auditor's Report and Financial Statements

September 30, 2017 and 2016



Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
September 30, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Board of Trustees of Republic County Hospital
Belleville, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Republic County Hospital (Board of Trustees), a component unit of Republic County, Kansas, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Board of Trustees of Republic County 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 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 the Board of Trustees of Republic County Hospital as of September 30, 2017 and 2016, 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
January 22, 2018

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Balance Sheets
September 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	\$ 293,819	\$ 439,940
Due from Hospital	52,396	30,939
Interest receivable	348	330
Intergovernmental receivable	236,855	287,696
Notes receivable	6,000	6,500
	<hr/>	<hr/>
Total current assets	589,418	765,405
	<hr/>	<hr/>
Certificates of Deposit	554,235	552,666
	<hr/>	<hr/>
Assets Limited As To Use		
Funds held by County for construction/debt service	21,645	25,733
Permanently restricted funds	412,871	412,871
	<hr/>	<hr/>
	434,516	438,604
	<hr/>	<hr/>
Capital Assets, Net	684,107	763,821
	<hr/>	<hr/>
Due From Hospital	147,402	98,350
	<hr/>	<hr/>
Total assets	<u><u>\$ 2,409,678</u></u>	<u><u>\$ 2,618,846</u></u>

Liabilities and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 92,396	\$ 65,939
Interest payable	6,120	6,120
Deposits	2,435	2,935
Total current liabilities	100,951	74,994
Long-term Debt, Less Current Maturities	517,402	508,350
Total liabilities	618,353	583,344
Net Position		
Net investment in capital assets	274,107	318,821
Restricted		
Nonexpendable permanent endowments	412,871	412,871
Unrestricted	1,104,347	1,303,810
Total net position	1,791,325	2,035,502
Total liabilities and net position	\$ 2,409,678	\$ 2,618,846

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Clinic revenue	\$ 81,285	\$ 74,292
Independent living revenue	108,720	108,740
Noncapital appropriations - Republic County	1,190,285	893,683
Other	<u>8,013</u>	<u>8,262</u>
Total operating revenues	<u>1,388,303</u>	<u>1,084,977</u>
Operating Expenses		
Clinic expense	87,884	88,167
Independent living expense	54,751	55,717
Board expense	8,701	14,446
Depreciation	<u>79,714</u>	<u>93,138</u>
Total operating expenses	<u>231,050</u>	<u>251,468</u>
Operating Income	<u>1,157,253</u>	<u>833,509</u>
Nonoperating Revenues (Expenses)		
Investment income	3,260	2,836
Contribution to Hospital for operations	(1,385,776)	(716,795)
Interest expense	<u>(18,914)</u>	<u>(20,401)</u>
Total nonoperating revenues (expenses)	<u>(1,401,430)</u>	<u>(734,360)</u>
Increase (Decrease) in Net Position	(244,177)	99,149
Net Position, Beginning of Year	<u>2,035,502</u>	<u>1,936,353</u>
Net Position, End of Year	<u><u>\$ 1,791,325</u></u>	<u><u>\$ 2,035,502</u></u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Patient and resident revenue	\$ 190,005	\$ 183,032
Noncapital appropriations - Republic County	1,241,126	654,500
Other revenue	7,513	8,512
Other payments	<u>(150,836)</u>	<u>(161,830)</u>
Net cash provided by operating activities	<u>1,287,808</u>	<u>684,214</u>
Noncapital Financing Activities		
Contributions to Hospital for operations	<u>(1,385,776)</u>	<u>(716,795)</u>
Net cash used in noncapital financing activities	<u>(1,385,776)</u>	<u>(716,795)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(35,000)	(35,000)
Interest paid on long-term debt	<u>(18,914)</u>	<u>(20,401)</u>
Net cash used in capital and related financing activities	<u>(53,914)</u>	<u>(55,401)</u>
Investing Activities		
Investment income	3,242	2,892
Change in certificates of deposit	(1,569)	(1,311)
Change in funds held by County	<u>4,088</u>	<u>(3,474)</u>
Net cash provided by (used in) investing activities	<u>5,761</u>	<u>(1,893)</u>
Decrease in Cash	(146,121)	(89,875)
Cash, Beginning of Year	<u>439,940</u>	<u>529,815</u>
Cash, End of Year	<u><u>\$ 293,819</u></u>	<u><u>\$ 439,940</u></u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statements of Cash Flows (Continued)
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Net Operating Revenues to		
Net Cash Provided by Operating Activities		
Operating income	\$ 1,157,253	\$ 833,509
Depreciation	79,714	93,138
Change in assets and liabilities		
Intergovernmental receivable	50,841	(239,183)
Notes receivable	500	(3,500)
Deposits	<u>(500)</u>	<u>250</u>
Net cash provided by operating activities	<u><u>\$ 1,287,808</u></u>	<u><u>\$ 684,214</u></u>

Supplemental Cash Flows Information

Capital lease principal payments made by Great Plains of Republic County, Inc. on subleases	\$ 37,826	\$ 35,917
Capital lease additions subleased to Great Plains of Republic County, Inc.	\$ 108,335	\$ 85,000

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

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

Nature of Operations and Reporting Entity

The Board of Trustees of Republic County Hospital (Board of Trustees) was organized by the County Commissioners of Republic County, Kansas to operate a governmental hospital and to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Republic County and is considered to be a component unit of Republic County (County). The Board of Trustees owns and rents a medical clinic building and independent living apartments.

Great Plains of Republic County, Inc. (GPRC/Hospital) is located in Belleville, Kansas and provides acute, swing-bed 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 the Hospital are reported separately from the Board of Trustees due to this lease agreement.

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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transactions take place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include noncapital appropriations – Republic County and exchange transactions. Contributions, investment income (loss) and contributions to Hospital for operations are included in nonoperating revenues (expenses).

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 Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at September 30, 2017 and 2016.

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair 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	10 – 25 years
Buildings	5 – 40 years
Fixed equipment	7 – 20 years
Moveable equipment	10 – 15 years

Maintenance, repairs and renewals which neither materially add to the value of the capital assets nor appreciably prolong the life are charged to expense as incurred. Gains or losses on dispositions of capital assets are included in operations.

Net Position

Net position of the Board of Trustees is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted 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 net investment in capital assets or restricted net position.

Noncapital Appropriations – Republic County

The Board of Trustees receives tax appropriations from the County. 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 assessed to the extent such taxes are collected and available for use. Amounts not yet received as of fiscal year-end are reflected on the balance sheets as intergovernmental receivables.

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 Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

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 Republic County, Kansas, and leased to GPRC by the Board of Trustees. The lease agreement provides that GPRC 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 five years through September 30, 2005, with two renewal option periods of five years each. The lease was renewed on January 1, 2016, for a period of five years through December 31, 2020, with two renewal option periods of five years each. The Board of Trustees leases the hospital facilities to GPRC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPRC, has a management agreement with GPRC. 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 GPRC upon commencement of the original term, October 1, 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 and Investments

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.

The Board of Trustees maintains its bank deposits (checking and saving accounts and certificates of deposit) with financial institutions which, at times, exceed federally insured limits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Board of Trustees is periodically reviewed and the Board of Trustees believes it is not exposed to any significant credit risk on these balances.

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

At September 30, 2017 and 2016, respectively, \$111,923 and \$235,077 of the Board of Trustees' bank balances of \$1,260,925 and \$1,405,477 were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and uncollateralized	\$ 67,580	\$ 139,596
Uninsured and collateral held on behalf of the the pledging financial institution in the Board of Trustees' name	<u>44,343</u>	<u>95,481</u>
	<u>\$ 111,923</u>	<u>\$ 235,077</u>

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets at September 30, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Carrying value Deposits	<u>\$ 1,260,925</u>	<u>\$ 1,405,477</u>

	<u>2017</u>	<u>2016</u>
Included in the following balance sheet captions		
Cash	\$ 293,819	\$ 439,940
Certificates of deposit	554,235	552,666
Permanently restricted funds	<u>412,871</u>	<u>412,871</u>
	<u>\$ 1,260,925</u>	<u>\$ 1,405,477</u>

Note 4: Assets Limited As To Use

Assets limited as to use include (1) funds held by the County for construction/debt service and (2) funds permanently restricted by donors. Permanently restricted funds consist of certificates of deposit and represent assets subject to donor-imposed stipulations that are required to be maintained permanently by the Board of Trustees.

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas

Notes to Financial Statements
September 30, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended September 30, was:

2017					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and improvements	\$ 311,774	\$ -	\$ -	\$ -	\$ 311,774
Buildings	2,019,964	-	-	-	2,019,964
Fixed equipment	299,951	-	-	-	299,951
Moveable equipment	26,184	-	-	-	26,184
	<u>2,657,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,657,873</u>
Less accumulated depreciation					
Land improvements	236,077	10,378	-	-	246,455
Buildings	1,327,503	68,642	-	-	1,396,145
Fixed equipment	304,288	694	-	-	304,982
Moveable equipment	26,184	-	-	-	26,184
	<u>1,894,052</u>	<u>79,714</u>	<u>-</u>	<u>-</u>	<u>1,973,766</u>
Capital Assets, Net	<u>\$ 763,821</u>	<u>\$ (79,714)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,107</u>

2016					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and improvements	\$ 311,774	\$ -	\$ -	\$ -	\$ 311,774
Buildings	2,019,964	-	-	-	2,019,964
Fixed equipment	299,951	-	-	-	299,951
Moveable equipment	26,184	-	-	-	26,184
	<u>2,657,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,657,873</u>
Less accumulated depreciation					
Land improvements	224,317	11,760	-	-	236,077
Buildings	1,246,819	80,684	-	-	1,327,503
Fixed equipment	303,594	694	-	-	304,288
Moveable equipment	26,184	-	-	-	26,184
	<u>1,800,914</u>	<u>93,138</u>	<u>-</u>	<u>-</u>	<u>1,894,052</u>
Capital Assets, Net	<u>\$ 856,959</u>	<u>\$ (93,138)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 763,821</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

Note 6: Long-term Debt/Due From Hospital

The following is a summary of long-term debt transactions for the Board of Trustees for the years ended September 30, 2017 and 2016:

2017					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital Revenue Bonds					
Series 2011	\$ 445,000	\$ -	\$ (35,000)	\$ 410,000	\$ 40,000
Capital lease obligations	129,289	108,335	(37,826)	199,798	52,396
Total long-term debt	<u>\$ 574,289</u>	<u>\$ 108,335</u>	<u>\$ (72,826)</u>	<u>\$ 609,798</u>	<u>\$ 92,396</u>
2016					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital Revenue Bonds					
Series 2011	\$ 480,000	\$ -	\$ (35,000)	\$ 445,000	\$ 35,000
Capital lease obligations	80,206	85,000	(35,917)	129,289	30,939
Total long-term debt	<u>\$ 560,206</u>	<u>\$ 85,000</u>	<u>\$ (70,917)</u>	<u>\$ 574,289</u>	<u>\$ 65,939</u>

Revenue Bonds Payable – Series 2011

The Series 2011 bonds payable consist of Hospital Revenue Bonds (Bonds) in the original amount of \$600,000 dated July 2011, with interest of 4.25%. The Bonds are payable in annual installments through June 2026. Outstanding bonds are redeemable at the Board of Trustees' option at any time at a redemption price of 100%.

Scheduled principal repayments on the revenue bond obligations as of September 30, 2017, were as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2018	\$ 57,425	\$ 40,000	\$ 17,425
2019	55,725	40,000	15,725
2020	54,025	40,000	14,025
2021	57,324	45,000	12,324
2022	55,413	45,000	10,413
2023 - 2026	<u>221,888</u>	<u>200,000</u>	<u>21,888</u>
	<u>\$ 501,800</u>	<u>\$ 410,000</u>	<u>\$ 91,800</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2017 and 2016

Capital Lease Obligations

The Board of Trustees is obligated under leases for equipment that are accounted for as capital leases. The Board of Trustees has subleased the equipment to GPRC. The following is a schedule by year of future minimum lease payments under the capital leases including interest ranging from 3.40% to 3.62% together with the present value of the future minimum lease payments as of September 30, 2017:

Year Ending September 30,	
2018	\$ 58,696
2019	58,696
2020	55,975
2021	25,301
2022	15,520
Total minimum lease payments	<u>214,188</u>
Less amount representing interest	<u>(14,390)</u>
Present value of future minimum lease payments	<u>\$ 199,798</u>
Current portion	\$ 52,396
Noncurrent portion	<u>147,402</u>
	<u>\$ 199,798</u>

Due from Hospital in the accompanying balance sheets represents the amounts due to the Board of Trustees in connection with the subleases referred to above.