

**Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas**

Independent Auditor's Report and Financial Statements

March 31, 2017 and 2016



Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
March 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Board of Trustees of Smith County Memorial Hospital
Smith Center, Kansas

We have audited the accompanying balance sheets of the Board of Trustees of Smith County Memorial Hospital (Board of Trustees), a component unit of Smith County, Kansas, as of March 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board of Trustees's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit 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 Smith County Memorial Hospital as of March 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.

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.

BKD, LLP

Wichita, Kansas
August 7, 2017

Board of Trustees of Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Balance Sheets March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 152,401	\$ 645,245
Certificates of deposit - restricted by donors for capital acquisitions	-	400,764
Trust receivable	501,200	-
Contributions receivable - current	56,453	55,357
Sales tax receivable	115,358	108,820
Due from Hospital	2,158	2,158
	<u>827,570</u>	<u>1,212,344</u>
Total current assets		
	<u>827,570</u>	<u>1,212,344</u>
Noncurrent Cash Restricted by Donors for Capital Acquisitions	544,627	274,618
	<u>544,627</u>	<u>274,618</u>
Contributions Receivable	109,328	145,074
	<u>109,328</u>	<u>145,074</u>
Interest in Assets at Greater Salina Community Foundation	13,608	8,388
	<u>13,608</u>	<u>8,388</u>
Beneficial Interest in Trust	480,068	-
	<u>480,068</u>	<u>-</u>
Total assets	<u>\$ 1,975,201</u>	<u>\$ 1,640,424</u>
	<u>\$ 1,975,201</u>	<u>\$ 1,640,424</u>
Deferred Inflows of Resources and Net Position		
Deferred Inflows of Resources		
Beneficial interest in trust	\$ 480,068	\$ -
	<u>\$ 480,068</u>	<u>\$ -</u>
Net Position		
Restricted-expendable for		
Capital acquisitions	710,408	475,049
Unrestricted	784,725	1,165,375
	<u>784,725</u>	<u>1,165,375</u>
Total net position	1,495,133	1,640,424
	<u>1,495,133</u>	<u>1,640,424</u>
Total deferred inflows of resources and net position	<u>\$ 1,975,201</u>	<u>\$ 1,640,424</u>
	<u>\$ 1,975,201</u>	<u>\$ 1,640,424</u>

Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Noncapital appropriations - Smith County property tax levy	\$ 308,263	\$ 287,278
Noncapital appropriations - sales tax	<u>473,034</u>	<u>435,279</u>
Total operating revenues	<u>781,297</u>	<u>722,557</u>
Operating Expenses	<u>333</u>	<u>11</u>
Operating Income	<u>780,964</u>	<u>722,546</u>
Nonoperating Revenues (Expenses)		
Interest income	607	765
Change in interest in assets at Greater Salina		
Community Foundation	5,220	-
Noncapital grants and gifts	524,324	-
Contribution to Hospital for operations	(1,200,000)	(150,000)
Other	<u>1,600</u>	<u>-</u>
Total nonoperating expenses	<u>(668,249)</u>	<u>(149,235)</u>
Excess of Revenues Over Expenses		
Before Capital Grants and Gifts, Net and		
Contributions to Hospital for Capital Assets	112,715	573,311
Capital Grants and Gifts, Net	108,640	803,294
Contributions to Hospital for Capital Assets	<u>(366,646)</u>	<u>(88,003)</u>
Increase (Decrease) in Net Position	(145,291)	1,288,602
Net Position, Beginning of Year	<u>1,640,424</u>	<u>351,822</u>
Net Position, End of Year	<u><u>\$ 1,495,133</u></u>	<u><u>\$ 1,640,424</u></u>

Board of Trustees of Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Statements of Cash Flows

Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from Smith County	\$ 774,759	\$ 613,737
Other payments	<u>(333)</u>	<u>984</u>
Net cash provided by operating activities	<u>774,426</u>	<u>614,721</u>
Noncapital Financing Activities		
Noncapital grants and gifts	23,124	-
Contributions to Hospital for operations	(1,200,000)	(150,000)
Other	<u>1,600</u>	<u>-</u>
Net cash used in noncapital financing activities	<u>(1,175,276)</u>	<u>(150,000)</u>
Capital and Related Financing Activities		
Capital grants and gifts, net	143,290	778,259
Contributions to Hospital for capital assets	<u>(366,646)</u>	<u>(88,003)</u>
Net cash provided by (used in) capital and related financing activities	<u>(223,356)</u>	<u>690,256</u>
Investing Activities		
Interest received	607	765
Purchase of certificates of deposit	-	(400,764)
Proceeds from disposition of certificates of deposit	<u>400,764</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>401,371</u>	<u>(399,999)</u>
Increase (Decrease) in Cash	<u>(222,835)</u>	<u>754,978</u>
Cash, Beginning of Year	<u>919,863</u>	<u>164,885</u>
Cash, End of Year	<u><u>\$ 697,028</u></u>	<u><u>\$ 919,863</u></u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 152,401	\$ 645,245
Cash in noncurrent cash	<u>544,627</u>	<u>274,618</u>
Total cash	<u><u>\$ 697,028</u></u>	<u><u>\$ 919,863</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 780,964	\$ 722,546
Changes in		
Sales tax receivable	(6,538)	(108,820)
Due from Hospital	<u>-</u>	<u>995</u>
Net cash provided by operating activities	<u><u>\$ 774,426</u></u>	<u><u>\$ 614,721</u></u>

Board of Trustees of Smith County Memorial Hospital A Component Unit of Smith County, Kansas

Notes to Financial Statements

March 31, 2017 and 2016

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

Nature of Operations

The Board of Trustees of Smith County Memorial Hospital (Board of Trustees) was organized by the County Commissioners of Smith County to operate a governmental hospital and to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Smith County. The Board of Trustees is considered to be a component unit of Smith County, Kansas.

Great Plains of Smith County, Inc. (GPSC/Hospital) is located in Smith Center, Kansas and provides acute, swing-bed, long-term care and clinic 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 GPSC 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, liabilities and deferred inflows and outflows 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 (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include tax appropriations and exchange transactions. Interest income, noncapital gifts and contributions to the 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. The Board of Trustees prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, 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 March 31, 2017 and 2016.

Board of Trustees of Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Notes to Financial Statements

March 31, 2017 and 2016

Deferred Inflows of Resources

The Board of Trustees reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Board of Trustees is classified in two components. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Board of Trustees. Unrestricted net position is the remaining net position that does not meet the definition of restricted net position.

Risk Management

The Board of Trustees is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; and natural disasters. The Board of Trustees is self-insured for its exposure to these risks of loss. Annual estimated provisions are accrued for and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported. Losses from asserted and unasserted claims identified under the Board of Trustees' incident reporting system are accrued based on estimates that incorporate the Board of Trustees' past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. There were no amounts accrued at March 31, 2017 and 2016.

Noncapital Appropriations – Smith County

The Board of Trustees receives noncapital appropriations from Smith County, Kansas in the form of property tax levy and sales tax revenue. Property taxes are assessed in November and are received beginning in January of the following year. Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period. Noncapital appropriations revenue for both property and sales taxes are recognized in full in the year in which use is first permitted.

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 Hospital is subject to federal income tax on any unrelated business taxable income.

Board of Trustees of Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Notes to Financial Statements

March 31, 2017 and 2016

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

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 Smith County, Kansas, and leased to GPSC by the Board of Trustees. The lease agreement provides that GPSC 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 December 5, 2005, with two renewal option periods of five years each, which ended December 5, 2015. GPSC extended the lease agreement another five years through December 1, 2020. The Board of Trustees leases the hospital facilities to GPSC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPSC, has a management agreement with GPSC. 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 GPSC upon commencement of the original term, December 5, 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 acceptable collateral having an aggregate value at least equal to the amount of the deposits.

The Board of Trustees maintains its bank deposits (checking and savings 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 Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Notes to Financial Statements

March 31, 2017 and 2016

At March 31, 2017 and 2016, respectively, \$447,028 and \$819,863 of the Board of Trustees' bank balances of \$697,028 and \$1,320,627 were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and uncollateralized	\$ -	\$ 219,982
Uninsured and collateral held on behalf of the pledging financial institution in the Board of Trustees' name	<u>447,028</u>	<u>599,881</u>
	<u><u>\$ 447,028</u></u>	<u><u>\$ 819,863</u></u>

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets at March 31, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Carrying Value		
Cash	\$ 152,401	\$ 645,245
Certificates of deposit	-	400,764
Noncurrent cash restricted by donors for capital acquisitions	<u>544,627</u>	<u>274,618</u>
	<u><u>\$ 697,028</u></u>	<u><u>\$ 1,320,627</u></u>

Note 4: Interest in Assets at Greater Salina Community Foundation

The Board of Trustees has entered into an Organization Fund Agreement (Agreement) with the Smith County Community Foundation, an affiliate of the Greater Salina Community Foundation (Foundation). In connection with the contribution and Agreement, the Foundation established the Smith County Memorial Hospital Fund (Fund). Per the Agreement, the Fund is to be held in perpetuity as a component fund of the Foundation with annual distributions from the Fund available for the benefit of the Smith County Memorial Hospital. Changes in the interest are included in nonoperating revenue.

The Board of Trustees did not contribute to the Foundation in either 2017 or 2016.

Board of Trustees of Smith County Memorial Hospital

A Component Unit of Smith County, Kansas

Notes to Financial Statements

March 31, 2017 and 2016

Note 5: Contributions Receivable

The Board of Trustees has entered into a capital campaign that will help cover the costs to construct, furnish and equip a new hospital on a new site and demolish a portion of the existing facility.

Contributions receivable consisted of the following at March 31, 2017:

Due within one year	\$ 62,726
Due in one to five years	126,989
Due in more than five years	<u>4,000</u>
	<u>193,715</u>
Less	
Allowance for uncollectible contributions	19,372
Unamortized discount	<u>8,562</u>
	<u>27,934</u>
	<u><u>\$ 165,781</u></u>

Discount rate was 4% in 2017.

Note 6: Trusts

The Board of Trustees is a beneficiary under a remainder trust and a perpetual trust administered by outside parties. The fair value of the remainder trust was \$501,200 at March 31, 2017. The Board of Trustees received the \$501,200 in June 2017. The fair value of the perpetual trust was \$480,068 at March 31, 2017. Under the terms of the perpetual trust, the Board of Trustees has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the principal held in the trust. The estimated value of the expected future cash flows is \$480,068, which represents the fair value of the trust assets at March 31, 2017. The income from the perpetual trust was \$23,124 for 2017.

**Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas**

Notes to Financial Statements

March 31, 2017 and 2016

Note 7: Fair Value Measurement of Assets

The Board of Trustees categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The beneficial interests in trusts is considered a Level 2 measurement as its fair value is based on the fair values of the underlying assets, which include cash, money markets, municipal bonds, corporate bonds and equities.