Financial Statements
December 31, 2017 and 2016

Edwards County Hospital, d/b/a Edwards County Medical Center

A Component Unit of Edwards County, Kansas

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Edwards County Hospital, d/b/a Edwards County Medical Center
Kinsley, Kansas

Report on Financial Statements

We have audited the accompanying financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center (Hospital), a component unit of Edwards County, Kansas, which comprise the statements of net position as of December 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.

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 provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and preform 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 Hospital'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 Edwards County Hospital, d/b/a Edwards County Medical Center as of December 31, 2017 and 2016, and the changes in financial position and 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
Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 23 through 24 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information on pages 23 through 24 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 Government 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 the missing information.

Oklahoma City, Oklahoma
April 26, 2018

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	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 948,462	$ 595,456
Receivables		
Patient, net of estimated uncollectibles of $543,000 in 2017 and $391,000 in 2016	1,777,594	1,776,121
Noncapital appropriations - Edwards County	300,000	400,000
Other	204,873	198,551
Supplies	191,503	222,988
Prepaid expenses and other	22,675	28,111
Total current assets	3,445,107	3,221,227
Noncurrent Cash Equivalents		
Internally designated for capital improvements	421,265	480,334
Capital Assets		
Capital assets not being depreciated	47,391	44,231
Capital assets being depreciated, net	1,584,291	1,608,825
Total capital assets	1,631,682	1,653,056
Other Receivables	56,164	206,915
Total assets	5,554,218	5,561,532
Deferred Outflows of Resources - Pension	488,970	582,568
Total assets and deferred outflows of resources	$ 6,043,188	$ 6,144,100

See Notes to Financial Statements

	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 67,280	$ 68,152
Current maturities of ZPIC settlement	59,884	196,009
Accounts payable		
Trade	470,972	452,863
Estimated third-party payor settlements	639,151	430,669
Accrued expenses	498,040	427,534
Total current liabilities	1,735,327	1,575,227
ZPIC Settlement, Less Current Maturities	26,784	87,453
Long-Term Debt, Less Current Maturities	183,111	251,298
Net Pension Liability	2,714,493	2,855,770
Total liabilities	4,659,715	4,769,748
Deferred Inflows of Resources		
Pension	185,770	183,327
Noncapital appropriations - Edwards County	300,000	400,000
Grants	38,743	4,675
Total deferred inflows of resources	524,513	588,002
Net Position		
Net investment in capital assets	1,381,291	1,333,606
Unrestricted	(522,331)	(547,256)
Total net position	858,960	786,350
Total liabilities, deferred inflows of resources, and net position	$ 6,043,188	$ 6,144,100

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

	2017	2016
Operating Revenue		
Net patient service revenue (net of provision for bad debts of $517,000 in 2017 and $129,000 in 2016)	$ 8,519,873	$ 8,278,846
Other revenue	462,213	454,854
Total operating revenue	8,982,086	8,733,700
Operating Expenses		
Salaries and wages	3,900,384	3,574,201
Employee benefits	911,479	744,945
Purchased services and professional fees	2,733,015	2,515,551
Supplies and other	1,719,451	1,563,504
Depreciation and amortization	260,140	533,684
Total operating expenses	9,524,469	8,931,885
Operating Loss	(542,383)	(198,185)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Edwards County	490,000	420,000
Interest from deposit accounts	2,912	2,613
Interest from loans, net	1,425	(23,204)
Noncapital grants and contributions	26,676	120,161
Other nonoperating income	39,060	-
Net nonoperating revenues	560,073	519,570
Revenues in Excess of Expenses Before Capital Contributions	17,690	321,385
Capital Contributions	54,920	-
Change in Net Position	72,610	321,385
Net Position, Beginning of Year	786,350	464,965
Net Position, End of Year	$ 858,960	$ 786,350

	2017	2016
Operating Activities		
Receipts from or on behalf of patients	$ 8,674,517	$ 8,085,623
Payments to suppliers and contractors	(4,397,436)	(4,344,365)
Payments to and on behalf of employees	(4,786,593)	(4,339,467)
Other receipts and payments, net	462,213	454,854
Net Cash used for Operating Activities	(47,299)	(143,355)
Noncapital Related Financing Activities		
Noncapital appropriations - Edwards County	490,000	420,000
Noncapital grants and contributions	60,744	118,111
Interest paid on financed ZPIC settlements, net of related interest received	12,105	(4,846)
Other nonoperating receipts	39,060	-
Net Cash from Noncapital Financing Activities	601,909	533,265
Capital and Capital Related Financing Activities		
Purchase of capital assets	(70,846)	(21,071)
Principal payments on long-term debt	(182,059)	(172,472)
Interest paid on long-term debt	(10,680)	(18,358)
Net Cash used for Capital and Capital Related Financing Activities	(263,585)	(211,901)
Investing Activities		
Interest income received	2,912	2,613
Net Change in Cash and Cash Equivalents	293,937	180,622
Cash and Cash Equivalents, Beginning of Year	1,075,790	895,168
Cash and Cash Equivalents, End of Year	$ 1,369,727	$ 1,075,790
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	$ 948,462	$ 595,456
Cash and cash equivalents in noncurrent cash and investments	421,265	480,334
Total cash and cash equivalents	$ 1,369,727	$ 1,075,790

Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (542,383)	$ (198,185)
Adjustments to reconcile operating loss to net cash used for operating activities		
Provision for bad debts	516,870	129,345
Depreciation and amortization	260,140	533,684
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Patient receivables	(518,343)	(575,402)
Other receivables	144,429	106,545
Supplies	31,485	(31,859)
Prepaid expenses and other	5,436	57,789
Deferred outflows of resources	93,598	(440,809)
Accounts payable - trade	18,109	(291,240)
Estimated third-party payor settlements	208,482	430,669
Accrued expenses	70,506	44,752
ZPIC Settlement	(196,794)	(284,380)
Net pension liability	(141,277)	520,167
Deferred inflows of resources - pension	2,443	(144,431)
Net Cash used for Operating Activities	$ (47,299)	$ (143,355)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	$ 113,000	$ 112,195
Contribution of capital assets	$ 54,920	$ -

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Edwards County Hospital, d/b/a Edwards County Medical Center (Hospital), a component unit of Edwards County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is an acute care hospital located in Kinsley, Kansas. The Hospital is a component unit of Edwards County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and geriatric psychiatric services to patients in the County area.

The financial statements of the Hospital reporting entity are intended to present the financial position, changes in financial position and cash flows of the Hospital. They do not purport to, and do not, present fairly the financial position, changes in financial position or cash flows of the County as of and for the years ended December 31, 2017 and 2016.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Tax Exempt Status

As an essential government function of the County, 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. The Hospital has also obtained 501(c)(3) status with the Internal Revenue Service.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital

The Hospital had no restricted net position at December 31, 2017 and 2016.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. The net patient service revenue for the years ended December 31, 2017 and 2016 decreased approximately $83,000 and $256,000 as a result of changes in estimates related to allowances.

Noncapital Appropriations Receivable and Revenue

Noncapital appropriations received from the County primarily consist of property taxes. Annually, the Hospital submits budgets to the County for approval for the next fiscal year. The budgets are approved by the Edwards County Board of Commissioners, generally in August, and utilized to establish the property tax levies. A specific levy in connection with the property taxes is assigned to the Hospital.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. Property owners have the option of paying one half or the full balance of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. The County Treasurer is the tax collection agent for all taxing entities within the County, including the Hospital. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1 of the ensuing year.

As such taxes are a lien on properties during the current year, but not received by the Hospital until the ensuing year, such noncapital appropriations are recorded as a receivable as of December 31. For revenue recognition purposes, taxes levied during the current year are not available to the Hospital until the ensuing year due to state statute and as such are recognized as a deferred inflow of resources.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent Cash Equivalents

Noncurrent cash equivalents are set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital assets acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10 - 20 years
Buildings	15 - 40 years
Fixed Equipment	5 - 20 years
Major movable equipment	3 - 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are reported after nonoperating revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, other differences between expected and actual experience, and contributions from the employer after the measurement date but before the end of the Hospital's reporting period. The Hospital's deferred outflows of resources are recognized as a component of compensation expense in the following year related to employer contributions, compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the plan.

Compensated Absences

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. Sick leave benefits are realized as paid time off and are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absences liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensated-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The liability for compensated absences is reported within accrued expenses in the accompanying financial statements.

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS's fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience, all associated with the Hospital's participation in the KPERS plan. In addition, deferred inflows of resources includes noncapital appropriations from the County related to the ensuing year's budget and grants received that relate to a future period. The Hospital's deferred inflows of resources related to pensions are recognized as a component of compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the plan. Noncapital appropriations are recognized as inflows of resources in the period the amounts become available and grants are recognized as revenue when earned.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include reimbursed costs, prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less that established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was $58,000 and $2,000 for the years ended December 31, 2017 and 2016, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended December 31, 2015. Inpatient geriatric psychiatry services are paid at prospectively determined per diem rates. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid 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.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended December 31, 2017 and 2016:

	2017	2016
Medicare	67%	72%
State-sponsored Medicaid program	4%	3%
Blue Cross and commercial insurances	27%	24%
Uninsured	2%	1%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

ZPIC Settlement

The Hospital is involved in an investigation regarding specific third-party payor program billing issues associated with the geriatric psychiatry unit. The investigation was conducted through the Medicare Zone Program Integrity Contractor (ZPIC) program. Ultimately, it was determined that the Hospital was subject to a repayment to Medicare based on this investigation. During 2015, the Hospital negotiated long-term payment terms with Medicare to repay this amount (Note 6). The Hospital has recorded a liability totaling $86,668 and $282,660 related to this matter on the statements of net position at December 31, 2017 and 2016. Amounts due after one year are reported as noncurrent liabilities. The Hospital has contested certain ZPIC repayments, but recorded the full value of repayments identified. Ultimately, events could occur that would cause the estimate of ultimate losses to differ materially in the near term.

Related to the ZPIC investigation and liability to Medicare, the Hospital has an agreement with a third-party vendor under which the vendor will reimburse the Hospital 50% of the amounts recovered by Medicare. The Hospital has recorded a receivable of $230,596 and $343,208 related to this matter, which is included in other receivables on the statements of net position at December 31, 2017 and 2016. Similar to the payment plan with Medicare discussed above, the Hospital will receive payments from the vendor over a period of time and has recorded its receivable due after one year as noncurrent receivables. The receivable earns interest at 10.125%, which is recorded net of the interest paid to Medicare and included as a nonoperating activity. The Hospital expects to receive principal payments of $174,432 in 2018 and $56,164 in 2019. The Hospital has assessed the collectability and has not recorded an allowance for estimated uncollectibles on this receivable at December 31, 2017 and 2016.

Note 3 - Deposits

The carrying amounts of the Hospital's cash and deposits as of December 31, 2017 and 2016 are $1,369,727 and $1,075,790.

Deposits are reported in the following statement of net position captions:

	2017	2016
Cash and cash equivalents	$ 948,462	$ 595,456
Noncurrent cash equivalents - internally designated	421,265	480,334
	$ 1,369,727	$ 1,075,790

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state laws. 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 amounts of the deposits. The Hospital's deposits in banks at December 31, 2017 and 2016 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Note 4 - Capital Assets

Capital assets additions, retirements or transfers, and balances for the year ended December 31, 2017 are as follows:

	Balance December 31, 2016	Additions	Transfers and Retirements	Balance December 31, 2017
Capital assets not being depreciated				
Land	$ 44,231	$ 3,160	$ -	$ 47,391
Capital assets being depreciated				
Land improvements	$ 122,166	$ -	$ -	$ 122,166
Buildings	4,060,198	83,960	-	4,144,158
Fixed equipment	1,993,286	115,999	-	2,109,285
Major moveable equipment	2,365,348	35,647	-	2,400,995
Total capital assets being depreciated	8,540,998	$ 235,606	$ -	8,776,604
Less accumulated depreciation for				
Land improvements	122,166	$ -	$ -	122,166
Buildings	3,153,421	63,213	-	3,216,634
Fixed equipment	1,641,358	49,408	-	1,690,766
Major moveable equipment	2,015,228	147,519	-	2,162,747
Total accumulated depreciation	6,932,173	$ 260,140	$ -	7,192,313
Net capital assets being depreciated	$ 1,608,825			$ 1,584,291
Capital assets, net	$ 1,653,056			$ 1,631,682

Capital assets additions, retirements or transfers, and balances for the year ended December 31, 2016 are as follows:

	Balance December 31, 2015	Additions	Transfers and Retirements	Balance December 31, 2016
Capital assets not being depreciated				
Land	$ 44,231	$ -	$ -	$ 44,231
Capital assets being depreciated				
Land improvements	$ 122,166	$ -	$ -	$ 122,166
Buildings	4,060,198	-	-	4,060,198
Fixed equipment	1,993,286	-	-	1,993,286
Major moveable equipment	2,232,082	133,266	-	2,365,348
Total capital assets being depreciated	8,407,732	$ 133,266	$ -	8,540,998
Less accumulated depreciation for				
Land improvements	122,166	$ -	$ -	122,166
Buildings	3,075,579	77,842	-	3,153,421
Fixed equipment	1,585,174	56,184	-	1,641,358
Major moveable equipment	1,615,570	399,658	-	2,015,228
Total accumulated depreciation	6,398,489	$ 533,684	$ -	6,932,173
Net capital assets being depreciated	$ 2,009,243			$ 1,608,825
Capital assets, net	$ 2,053,474			$ 1,653,056

Note 5 - Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2017 and 2016 for all operating leases was $147,132 and $169,494. The capitalized lease assets consist of:

	2017	2016
Major movable equipment	$ 326,074	$ 213,074
Less accumulated amortization	(58,262)	(21,411)
	$ 267,812	$ 191,663

Minimum future lease payments for capital leases are as follows:

Years Ending December 31,	
2018	$ 75,049
2019	77,283
2020	73,408
2021	40,458
Total minimum lease payments	266,198
Less interest imputed at 5.89%	(15,807)
Present value of minimum lease payments - Note 6	$ 250,391

Note 6 - Long-Term Liabilities

A schedule of the Hospital's long-term liabilities for 2017 and 2016 is as follows:

	Balance December 31, 2016	Additions	Payments/ Adjustments	Balance December 31, 2017	Due Within One Year
Long-Term Debt					
4.5% note payable to bank	$ 132,594	$ -	$ (132,594)	$ -	$ -
Capital leases - Note 5	186,856	113,000	(49,465)	250,391	67,280
Total long-term debt	319,450	113,000	(182,059)	250,391	67,280
Other Noncurrent Liabilities					
ZPIC settlement - Note 2	283,462	-	(196,794)	86,668	59,884
Net pension liability	2,855,770	-	(141,277)	2,714,493	-
Total noncurrent liabilities	$ 3,458,682	$ 113,000	$ (520,130)	$ 3,051,552	$ 127,164

	Balance December 31, 2015	Additions/ Adjustments	Payments	Balance December 31, 2016	Due Within One Year
Long-Term Debt					
4.5% note payable to bank	$ 281,755	$ -	$ (149,161)	$ 132,594	$ 27,609
Capital leases - Note 5	97,972	112,195	(23,311)	186,856	40,543
Total long-term debt	379,727	112,195	(172,472)	319,450	68,152
Other Noncurrent Liabilities					
ZPIC settlement - Note 2	567,842	-	(284,380)	283,462	196,009
Net pension liability	2,335,603	520,167	-	2,855,770	-
Total noncurrent liabilities	$ 3,283,172	$ 632,362	$ (456,852)	$ 3,458,682	$ 264,161

Note 7 - Pension Plan

Plan Description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

- State/School
- Local
- Police and Firemen
- Judges

The Hospital's employees participate in the Local group.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62 and 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2017 and 2016, was 9.46% (8.46% and the 1% for death and dismemberment starting on September 30, 2017) and 9.18% of annual payroll. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for the pension plan for the years ended December 31, 2017 and 2016, were $294,107 and $304,112.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan

At December 31, 2017 and 2016, the Hospital reported a liability of $2,714,493 and $2,855,770, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, rolled forward to June 30, 2017 and 2016. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2017, the Hospital's proportion was 0.187406%, which was an increase of 0.002809% from its proportion measured as of June 30, 2016, of 0.184597%. At June 30, 2015, the proportion was 0.177877%.

For the years ended December 31, 2017 and 2016, and 2015, the Hospital recognized pension expense of $250,015, $239,976, and $121,081. At December 31, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,129	$ 93,862	$ 16,575	$ 51,544
Net difference between projected and actual earnings on pension plan investments	85,149	-	337,351	-
Changes in assumptions	146,187	19,850	-	26,714
Changes in proportion	93,040	72,058	78,213	105,069
Hospital's contributions subsequent to the measurement date	151,465	-	150,429	-
Total	$ 488,970	$ 185,770	$ 582,568	$ 183,327

At December 31, 2017, the Hospital reported $151,465 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	
2018	$ (14,892)
2019	94,486
2020	74,816
2021	(14,013)
2022	11,338
Total	$ 151,735

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.5% to 12%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

The total pension liability in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	4% to 16%, including inflation
Investment rate of return	8%, net of pension plan investment expense, including inflation

The December 31, 2016 actuarial valuations used mortality rates based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The December 31, 2015 actuary valuations used mortality rates based on the RP-2000 Combined Mortality Table for males and females Annuitant table, as appropriate with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation was based on the results of an actuarial experience study for the three-year period ended January 1, 2013 through December 31, 2015. The actuarial assumptions used in the December 31, 2015 valuation was based on the results of an actuarial experience study for the three-year period ended December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	2017		2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.8%	47%	6.8%
Fixed income	13%	1.3%	13%	1.3%
Yield driven	8%	6.6%	8%	6.6%
Real return	11%	1.7%	11%	1.7%
Real estate	11%	5.1%	11%	5.1%
Alternatives	8%	9.9%	8%	9.9%
Short-term investments	2%	-0.3%	2%	-0.3%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the year ended December 31, 2017 and 8% for the year ended December 31, 2016. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75% at December 31, 2017 and 8% for December 31, 2016. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability, December 31, 2017	$ 3,909,463	$ 2,714,496	$ 1,707,180

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Hospital's proportionate share of the net pension liability, December 31, 2016	$ 3,914,295	$ 2,855,770	$ 1,958,224

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

Note 8 - Designated Net Position

At December 31, 2017 and 2016, $421,265 and $480,334 of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes. Designated net position is reported as noncurrent cash equivalents, internally designated for capital improvements.

Note 9 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2017 and 2016 were as follows:

	2017	2016
Medicare	45%	54%
State-sponsored Medicaid program	6%	4%
Blue Cross and commercial insurances	25%	30%
Patients	24%	12%
	100%	100%

The Hospital received approximately 5.1% and 4.4% of its financial support from noncapital appropriations from Edwards County in 2017 and 2016.

Note 10 - Contingencies

Risk Management

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

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $200,000 per claim and an aggregate limit of $600,000. The Kansas Health Care Stabilization Fund provides an additional $800,000 of coverage per claim and an additional $2,400,000 of aggregate coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of task under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Required Supplementary Information
December 31, 2017 and 2016

Edwards County Hospital, d/b/a Edwards County Medical Center

Last 10 Fiscal Years (see Note)

	2017*	2016*	2015*	2014*
Hospital's proportion of the net pension liability	0.187406%	0.184597%	0.177877%	0.182953%
Hospital's proportionate share of the net pension liability	$ 2,714,493	$ 2,855,770	$ 2,335,603	$ 2,251,809
Hospital's covered employee payroll	$ 3,324,731	$ 3,169,466	$ 2,978,242	$ 3,018,272
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	81.65%	90.10%	78.42%	74.61%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%

* The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).

Note to Schedule

This Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Last 10 Fiscal Years (see Note)

	2017*	2016*	2015*	2014*
Contractually required contribution	$ 294,107	$ 304,374	$ 280,706	$ 266,944
Contribution in relation to the contractually required contribution	294,107	304,113	280,706	266,944
Contribution deficiency (excess)	$ -	$ 261	$ -	$ -
Hospital's covered employee payroll	$ 3,592,861	$ 3,315,621	$ 2,968,257	$ 3,020,983
Contributions as a percentage of covered employee payroll	8.46%	9.17%	9.46%	8.84%

* The amounts presented for each fiscal year are as of the most recent fiscal year end (December 31).

Note to Schedule

This Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.