

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**December 31, 2017 and 2016**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
--	----------

**Financial Statements**

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

## Independent Auditor's Report

Board of Trustees  
Fredonia Regional Hospital  
Fredonia, Kansas

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

***Other Matters***

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not 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  
May 4, 2018

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Balance Sheets**  
**December 31, 2017 and 2016**

**Assets and Deferred Outflows of Resources**

	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash	\$ 864,593	\$ 2,064,856
Restricted cash and investments – current	263,231	261,956
Patient accounts receivable, net of allowance		
2017 – \$178,369, 2016 – \$182,755	1,700,517	1,241,272
Estimated amounts due from third-party payers	90,000	-
Supplies	521,905	441,255
Prepaid expenses and other	203,464	188,926
	<hr/>	<hr/>
Total current assets	3,643,710	4,198,265
	<hr/>	<hr/>
<b>Noncurrent Cash and Investments</b>		
Designated by Board of Trustees	1,189,671	1,520,243
Restricted by donors for capital acquisitions		
and specific operating activities	28,266	17,169
Held by trustee for debt service	751,601	750,071
	<hr/>	<hr/>
Total noncurrent cash and investments	1,969,538	2,287,483
	<hr/>	<hr/>
<b>Capital Assets, Net</b>	6,574,134	7,369,396
	<hr/>	<hr/>
Total assets	12,187,382	13,855,144
	<hr/>	<hr/>
<b>Deferred Outflows of Resources</b>		
Unamortized loss on refunding of long-term debt	705,936	743,592
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 12,893,318	\$ 14,598,736
	<hr/>	<hr/>

## Liabilities and Net Position

	2017	2016
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 476,306	\$ 465,275
Accounts payable	496,923	544,776
Accrued salaries and wages	172,661	167,136
Accrued vacation benefits	376,903	281,826
Accrued interest payable	156,977	161,437
Deferred revenue	-	12,108
Estimated amounts due to third-party payers	242,535	176,009
Total current liabilities	1,922,305	1,808,567
<b>Long-term Debt</b>	9,683,064	10,163,054
<b>Estimated Amounts Due to Third-party Payers</b>	340,153	384,881
Total liabilities	11,945,522	12,356,502
<b>Net Position</b>		
Net investment in capital assets	(3,585,236)	(3,258,933)
Restricted - expendable for		
Debt service	1,014,832	1,012,027
Capital acquisitions and specific operating activities	28,266	5,061
Unrestricted	3,489,934	4,484,079
Total net position	947,796	2,242,234
Total liabilities and net position	\$ 12,893,318	\$ 14,598,736

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$631,328, 2016 – \$639,805	\$ 12,729,438	\$ 12,994,444
Other	<u>380,103</u>	<u>451,549</u>
Total operating revenues	<u>13,109,541</u>	<u>13,445,993</u>
<b>Operating Expenses</b>		
Salaries and wages	5,904,894	5,106,702
Employee benefits	1,337,301	1,080,173
Debt issuance costs	-	325,138
Supplies and other	6,440,948	6,785,528
Depreciation	<u>931,271</u>	<u>996,051</u>
Total operating expenses	<u>14,614,414</u>	<u>14,293,592</u>
<b>Operating Loss</b>	<u>(1,504,873)</u>	<u>(847,599)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital appropriations – City of Fredonia and Wilson County	526,258	574,609
Interest income	10,676	8,951
Interest expense	(557,848)	(629,119)
Noncapital grants and gifts	<u>230,349</u>	<u>-</u>
Total nonoperating expenses	<u>209,435</u>	<u>(45,559)</u>
<b>Deficiency of Revenues Over Expenses Before Capital Grants and Gifts</b>	(1,295,438)	(893,158)
<b>Capital Grants and Gifts</b>	<u>1,000</u>	<u>20,924</u>
<b>Decrease in Net Position</b>	(1,294,438)	(872,234)
<b>Net Position, Beginning of Year</b>	<u>2,242,234</u>	<u>3,114,468</u>
<b>Net Position, End of Year</b>	<u><u>\$ 947,796</u></u>	<u><u>\$ 2,242,234</u></u>

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 12,201,991	\$ 13,073,154
Payments to suppliers and contractors	(6,588,449)	(7,249,736)
Payments to employees	(7,141,593)	(6,157,299)
Other receipts	<u>367,995</u>	<u>463,657</u>
Net cash provided by (used in) operating activities	<u>(1,160,056)</u>	<u>129,776</u>
<b>Noncapital Financing Activities</b>		
Noncapital appropriations - City of Fredonia and Wilson County	526,258	574,609
Noncapital grants and gifts	<u>230,349</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>756,607</u>	<u>574,609</u>
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	1,000	20,924
Principal paid on long-term debt	(468,959)	(281,214)
Proceeds from issuance of long-term debt	-	10,360,000
Refunding of Series 2007 and 2010 bonds	-	(9,591,453)
Interest paid on long-term debt	(520,192)	(594,601)
Purchases of capital assets	<u>(136,009)</u>	<u>(163,907)</u>
Net cash used in capital and related financing activities	<u>(1,124,160)</u>	<u>(250,251)</u>
<b>Investing Activities</b>		
Interest income	10,676	8,951
Purchases of investments	(1,016,879)	(1,014,072)
Proceeds from disposition of investments	<u>1,012,027</u>	<u>534,755</u>
Net cash provided by (used in) investing activities	<u>5,824</u>	<u>(470,366)</u>
<b>Decrease in Cash</b>	(1,521,785)	(16,232)
<b>Cash, Beginning of Year</b>	<u>3,085,226</u>	<u>3,101,458</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,563,441</u></u>	<u><u>\$ 3,085,226</u></u>



**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 864,593	\$ 2,064,856
Cash designated by Board of Trustees	670,582	1,003,201
Cash restricted by donors	<u>28,266</u>	<u>17,169</u>
	<u><u>\$ 1,563,441</u></u>	<u><u>\$ 3,085,226</u></u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (1,504,873)	\$ (847,599)
Depreciation	931,271	996,051
Provision for uncollectible accounts	631,328	639,805
Changes in operating assets and liabilities		
Patient accounts receivable	(1,090,573)	556,436
Estimated amounts due from and to third-party payers	(68,202)	(1,117,531)
Supplies	(80,650)	(63,687)
Prepaid expenses and other	(14,538)	6,673
Accounts payable	(47,853)	(22,671)
Accrued expenses	<u>84,034</u>	<u>(17,701)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (1,160,056)</u></u>	<u><u>\$ 129,776</u></u>
<b>Noncash Investing, Capital and Financial Activities</b>		
Amortization of loss on refunding	\$ 37,656	\$ 34,518

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

***Nature of Operations and Reporting Entity***

Fredonia Regional Hospital (Hospital) is a municipal hospital located in Fredonia, Kansas. The Hospital is a component unit of the City of Fredonia, Kansas (City). The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services. It also operates a geriatric psych unit and physician clinics. The Hospital is licensed as a critical access hospital (CAH).

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows 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 federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

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

***Noncapital Appropriations – City of Fredonia and Wilson County***

The Hospital received approximately 4% in both 2017 and 2016 of its financial support from noncapital appropriations from the City of Fredonia's 1% sales tax and Wilson County property tax levy.

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – City of Fredonia and Wilson County is recognized in full in the year in which use is first permitted.

***Risk Management***

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

***Investments***

Investments in U.S. Treasury, agency and instrumentality obligations (money market investments) with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings and leasehold improvements	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 10 years

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Deferred Outflows of Resources***

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

***Compensated Absences***

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

***Net Position***

Net position of the Hospital 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 expendable net position includes noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

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

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

***Income Taxes***

As an essential government function of the City, 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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. CAHs are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recorded revenue of \$0 and \$96,430 for the years ended December 31, 2017 and 2016, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

**Note 2: Net Patient Service Revenue**

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

*Medicare.* The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. Inpatient geriatric psych services rendered to Medicare program beneficiaries are paid based on a blend of prospective payment rates and cost subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

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

Approximately 71% and 75% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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.

Net patient service revenue is computed as follows for the years ended December 31:

	<b>2017</b>	<b>2016</b>
Gross patient service revenue	\$ 20,819,355	\$ 21,685,004
Less contractual adjustments		
Medicare	(4,463,410)	(4,647,100)
Medicaid	(1,556,103)	(1,251,478)
Other contractals and adjustments	(1,262,055)	(1,153,130)
Charity care	(30,051)	(19,157)
Administrative discounts	(146,970)	(979,890)
Provision for uncollectible accounts	(631,328)	(639,805)
	<u>\$ 12,729,438</u>	<u>\$ 12,994,444</u>

**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 Hospital's 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.

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

At December 31, 2017 and 2016, respectively, \$1,770,242 and \$3,154,929 of the Hospital's bank balances of \$2,270,242 and \$3,654,929 were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and collateral held by pledging financial institution	\$ 1,541,900	\$ 2,944,371
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>228,342</u>	<u>210,558</u>
	<u><u>\$ 1,770,242</u></u>	<u><u>\$ 3,154,929</u></u>

***Investments***

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

All of the Hospital's held by trustee for debt service investments as well as the current portion of restricted cash and investments were invested in short-term U.S. treasuries (money market investments) with a remaining maturity of one year or less at the time of acquisition at December 31, 2017 and 2016.

***Summary of Carrying Values***

The carrying values of deposits and investments are included in the balance sheets as follows:

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	\$ 2,082,530	\$ 3,602,268
Investments	<u>1,014,832</u>	<u>1,012,027</u>
	<u><u>\$ 3,097,362</u></u>	<u><u>\$ 4,614,295</u></u>

Included in the following balance sheet captions:

	<u>2017</u>	<u>2016</u>
Cash	\$ 864,593	\$ 2,064,856
Restricted cash and investments - current	263,231	261,956
Designated by Board of Trustees	1,189,671	1,520,243
Restricted by donors for capital acquisitions	28,266	17,169
Held by trustee for debt service	<u>751,601</u>	<u>750,071</u>
	<u><u>\$ 3,097,362</u></u>	<u><u>\$ 4,614,295</u></u>

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 4: Patient Accounts Receivable**

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

	<b>2017</b>	<b>2016</b>
Medicare	\$ 948,436	\$ 532,642
Medicaid	51,751	51,998
Blue Cross	108,827	160,744
Commercial	207,656	243,361
Private pay	562,216	435,282
	<u>1,878,886</u>	<u>1,424,027</u>
Less allowance for uncollectible accounts	<u>(178,369)</u>	<u>(182,755)</u>
	<u><u>\$ 1,700,517</u></u>	<u><u>\$ 1,241,272</u></u>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2017</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Land	\$ 25,474	\$ -	\$ -	\$ 25,474
Land improvements	843,452	-	-	843,452
Buildings	11,526,149	-	-	11,526,149
Fixed equipment	1,380,677	-	-	1,380,677
Moveable equipment	3,926,412	136,009	(165,645)	3,896,776
	<u>17,702,164</u>	<u>136,009</u>	<u>(165,645)</u>	<u>17,672,528</u>
Less accumulated depreciation				
Land improvements	(506,289)	(34,544)	-	(540,833)
Buildings	(5,889,053)	(565,004)	-	(6,454,057)
Fixed equipment	(865,273)	(78,199)	-	(943,472)
Moveable equipment	(3,072,153)	(253,524)	165,645	(3,160,032)
	<u>(10,332,768)</u>	<u>(931,271)</u>	<u>165,645</u>	<u>(11,098,394)</u>
Capital assets, net	<u><u>\$ 7,369,396</u></u>	<u><u>\$ (795,262)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,574,134</u></u>



**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

	<b>2016</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Land	\$ 25,474	\$ -	\$ -	\$ 25,474
Land improvements	841,012	12,250	(9,810)	843,452
Buildings	11,506,864	19,285	-	11,526,149
Fixed equipment	1,380,677	-	-	1,380,677
Moveable equipment	3,807,494	132,372	(13,454)	3,926,412
Construction in process	-	-	-	-
	<u>17,561,521</u>	<u>163,907</u>	<u>(23,264)</u>	<u>17,702,164</u>
Less accumulated depreciation				
Land improvements	(471,173)	(44,926)	9,810	(506,289)
Buildings	(5,299,305)	(589,748)	-	(5,889,053)
Fixed equipment	(786,810)	(78,463)	-	(865,273)
Moveable equipment	(2,802,693)	(282,914)	13,454	(3,072,153)
	<u>(9,359,981)</u>	<u>(996,051)</u>	<u>23,264</u>	<u>(10,332,768)</u>
Capital assets, net	<u>\$ 8,201,540</u>	<u>\$ (832,144)</u>	<u>\$ -</u>	<u>\$ 7,369,396</u>

**Note 6: Medical Malpractice Claims**

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

**Note 7: Long-term Obligations**

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

	<b>2017</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
Series 2016 Refunding						
Revenue Bonds	\$10,185,000	\$ -	\$ 355,000	\$ 9,830,000	\$ 370,000	\$ 9,460,000
Capital leases	443,329	-	113,959	329,370	106,306	223,064
	<u>\$10,628,329</u>	<u>\$ -</u>	<u>\$ 468,959</u>	<u>\$10,159,370</u>	<u>\$ 476,306</u>	<u>\$ 9,683,064</u>

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

	2016					
	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion	Long-term Portion
Series 2016 Refunding						
Revenue Bonds	\$ -	\$10,360,000	\$ 175,000	\$10,185,000	\$ 355,000	\$ 9,830,000
Series 2010 Hospital						
Revenue Bonds	16,453	-	16,453	-	-	-
Series 2007 Hospital						
Revenue Bonds	9,575,000	-	9,575,000	-	-	-
Capital leases	549,543	-	106,214	443,329	110,275	333,054
	<u>\$10,140,996</u>	<u>\$10,360,000</u>	<u>\$ 9,872,667</u>	<u>\$10,628,329</u>	<u>\$ 465,275</u>	<u>\$10,163,054</u>

***Series 2016 Refunding Revenue Bonds***

In February 2016, the Hospital issued \$10,360,000 City of Fredonia, Kansas Hospital Refunding Revenue Bonds, Series 2016 (2016 Bonds). The 2016 Bonds are payable in annual installments through August 15, 2036, and bear interest at rates of 3.00% to 4.90%. The 2016 Bonds are secured by the net revenues of the Hospital.

Upon issuance and delivery of the Series 2016 Bonds, the Hospital defeased its outstanding Series 2010 and 2007 bonds. Funds were deposited in trust under an escrow agreement sufficient in amount to pay future principal and interest on the defeased bonds. This advance refunding transactions resulted in an extinguishment of debt since the Hospital was legally defeased from its obligation on the Series 2010 and 2007 bonds at the time of defeasance. The advance refunding of the Series 2010 and 2007 bonds resulted in an overall future economic benefit for the Hospital. However, an accounting loss of \$778,100 on the extinguishment of the long-term debt was recorded in 2016. This loss on refunding is shown as a deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2016 Bonds.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and restricted cash and investments - current in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage of at least 1.10 or maintaining a minimum days' cash on hand of 75 days, which includes the Fredonia Regional Health Care Foundation, Inc.'s cash.

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Capital Lease Obligations**

Equipment cost and accumulated depreciation under the capitalized lease obligations are as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Moveable equipment	\$ 577,361	\$ 577,361
Less accumulated depreciation	<u>285,245</u>	<u>186,064</u>
	<u>\$ 292,116</u>	<u>\$ 391,297</u>

Scheduled principal and interest payments on long-term debt and capital lease obligations are as follows:

Year Ending December 31,	<u>Long-term Debt</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 370,000	\$ 418,605	\$ 106,306	\$ 13,641
2019	385,000	406,025	111,314	9,124
2020	395,000	392,935	107,620	3,325
2021	410,000	379,505	4,130	181
2022	420,000	367,205	-	-
2023-2027	2,340,000	1,599,165	-	-
2028-2032	2,885,000	1,063,890	-	-
2033-2036	<u>2,625,000</u>	<u>313,845</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,830,000</u>	<u>\$ 4,941,175</u>	<u>\$ 329,370</u>	<u>\$ 26,271</u>

**Note 8: Management/Services Agreement**

The Board of Trustees has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2017 and 2016, were \$640,344 and \$579,939, respectively. Amounts included in accounts payable related to these services totaled \$51,533 and \$45,757 at December 31, 2017 and 2016, respectively.

**Fredonia Regional Hospital**  
**A Component Unit of the City of Fredonia, Kansas**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note 9: Pension Plan**

The Hospital contributes to a Deferred Compensation Plan (Plan) covering all employees. The Hospital's share of the contribution is 4% of the covered payroll and the employees' share is 3% of the covered payroll. The employees may contribute any additional amount to the Plan on a voluntary basis. The contributions are invested as each employee directs. Each participant chooses which accounts to use and may change the election once each calendar year. Contributions actually made by plan members and the Hospital aggregated \$169,715 and \$180,192 during 2017 and \$156,234 and \$146,426 during 2016, respectively.

**Note 10: Fredonia Regional Health Care Foundation, Inc.**

The Fredonia Regional Health Care Foundation, Inc. (Foundation) is a nonprofit organized to perpetuate the advancement of health, health care and medical education, research and welfare services for residents of Fredonia, Kansas and its outlying regions. The Foundation is not considered a component unit of the Hospital. The Foundation contributed \$124,953 and \$0 to the Hospital in 2017 and 2016, which is included in capital grants and gifts and noncapital grants and gifts on the statements of revenues, expenses and changes in net position, respectively.