

Ness County Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Ness County Hospital District No. 2
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Ness County Hospital District No. 2
Ness City, Kansas

We have audited the accompanying financial statements of Ness County Hospital District No. 2 as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Ness County Hospital District No. 2'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 Ness County Hospital District No. 2 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.

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, economical or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
May 21, 2018

Ness County Hospital District No. 2
Balance Sheets
December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	\$ 669,728	\$ 176,848
Short-term certificates of deposit	96,032	129,520
Restricted cash	329,446	341,642
Patient accounts receivable, net of allowance; 2017 - \$391,000, 2016 - \$437,000	1,037,258	1,257,975
Property taxes receivable	1,392,642	1,473,390
Estimated amounts due from Medicare	83,182	200,000
Due from Medicaid for electronic health records incentive	112,282	-
Supplies	164,940	175,849
Prepaid expenses and other	46,369	108,468
Total current assets	3,931,879	3,863,692
Long-term Certificates of Deposit	33,718	-
Capital Assets, Net	3,662,331	4,049,241
Other Assets		
Farm land	156,142	156,142
Total assets	<u>\$ 7,784,070</u>	<u>\$ 8,069,075</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 262,800	\$ 306,922
Accounts payable	275,873	443,302
Accrued expenses	491,997	469,452
Unearned grant revenue	9,450	9,450
Total current liabilities	1,040,120	1,229,126
Long-term Debt	1,511,275	1,774,075
Total liabilities	2,551,395	3,003,201
Deferred Inflows of Resources - Property Taxes	1,392,642	1,453,621
Net Position		
Net investment in capital assets	1,888,256	1,968,244
Restricted – expendable for specific operating activities	42,111	54,691
Restricted – expendable for debt service	287,335	286,951
Unrestricted	1,622,331	1,302,367
Total net position	3,840,033	3,612,253
Total liabilities, deferred inflows of resources and net position	\$ 7,784,070	\$ 8,069,075

Ness County Hospital District No. 2
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$97,568, 2016 - \$237,841	\$ 7,689,332	\$ 7,369,543
Other	592,265	143,582
	<u>8,281,597</u>	<u>7,513,125</u>
Operating Expenses		
Salaries and wages	4,343,863	4,282,342
Employee benefits	1,586,434	1,394,310
Purchased services and professional fees	1,218,459	1,462,429
Supplies and other	2,109,096	1,905,707
Depreciation	414,354	481,052
	<u>9,672,206</u>	<u>9,525,840</u>
Operating Loss	<u>(1,390,609)</u>	<u>(2,012,715)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,543,747	1,501,236
Interest income	2,482	1,843
Interest expense	(70,510)	(82,704)
Noncapital grants and gifts	70,393	65,752
Farm income	16,047	22,259
Farm expense	(630)	(842)
	<u>1,561,529</u>	<u>1,507,544</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	170,920	(505,171)
Capital Grants and Gifts	<u>56,860</u>	<u>47,250</u>
Increase (Decrease) in Net Position	227,780	(457,921)
Net Position, Beginning of Year	<u>3,612,253</u>	<u>4,070,174</u>
Net Position, End of Year	<u><u>\$ 3,840,033</u></u>	<u><u>\$ 3,612,253</u></u>

Ness County Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 7,914,585	\$ 7,029,722
Payments to suppliers and contractors	(3,423,046)	(3,212,235)
Payments to and on behalf of employees	(5,906,682)	(5,615,688)
Other receipts, net	592,265	143,582
	<u>(822,878)</u>	<u>(1,654,619)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Property taxes	1,563,516	1,511,970
Noncapital grants and gifts	70,393	18,502
Principal paid on notes payable	-	(5,680)
Interest paid on notes payable	-	(1,144)
	<u>1,633,909</u>	<u>1,523,648</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Capital grants and gifts	56,860	47,250
Principal paid on long-term debt	(306,922)	(312,898)
Interest paid on long-term debt	(70,510)	(81,560)
Purchase of capital assets	(27,444)	(25,689)
	<u>(348,016)</u>	<u>(372,897)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest income received	2,482	1,843
Purchase of certificates of deposit	(114,750)	(114,520)
Maturities of certificates of deposit	114,520	114,290
Farm income received	16,047	22,259
Farm expenses paid	(630)	(842)
	<u>17,669</u>	<u>23,030</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash	480,684	(480,838)
Cash, Beginning of Year	<u>518,490</u>	<u>999,328</u>
Cash, End of Year	<u><u>\$ 999,174</u></u>	<u><u>\$ 518,490</u></u>

Ness County Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 669,728	\$ 176,848
Restricted cash	<u>329,446</u>	<u>341,642</u>
Total cash	<u>\$ 999,174</u>	<u>\$ 518,490</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,390,609)	\$ (2,012,715)
Depreciation	414,354	481,052
Changes in operating assets and liabilities		
Patient accounts receivable, net	220,717	(153,821)
Estimated amounts due from and to Medicare and Medicaid	4,536	(186,000)
Accounts payable and accrued expenses	(144,884)	131,429
Other assets and liabilities	<u>73,008</u>	<u>85,436</u>
Net cash used in operating activities	<u>\$ (822,878)</u>	<u>\$ (1,654,619)</u>

Ness County Hospital District No. 2

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

Ness County Hospital District No. 2 (Hospital) is an acute care hospital located in Ness City, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ness County area. It also operates a home health agency in the same geographic area.

The Ness County Health Foundation, Inc. (Foundation) is a legally separate, tax-exempt, not-for-profit organization whose purpose is to raise and hold funds to support the Hospital and its programs. The Board of Directors of the Hospital appoints a voting majority of the Board of the Foundation resulting in the Hospital being financially accountable for the Foundation with the Foundation being included in the Hospital's financial statements as a blended component unit.

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 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 are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes, interest 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, there were no cash equivalents.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

Certificates of Deposit

Certificates of deposit are reported at cost, which approximates fair value. Certificates of deposit with maturities of less than one year are reported as current assets. Those with maturities greater than one year are reported as long-term.

Property Taxes

The Hospital received approximately 16% in 2017 and 17% in 2016 of its financial support from property taxes. One hundred percent of these funds were used to support operations.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is 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.

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 and leasehold improvements 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	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

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Notes to Financial Statements

December 31, 2017 and 2016

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 is made up of 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 the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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 without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

Income Taxes

As an essential government entity, 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 Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation 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 technology (EHR). Critical access hospitals 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 under the Medicaid EHR program of \$299,419 for the year ended December 31, 2017, which is included in other operating revenue in the statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial 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 critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

Ness County Hospital District No. 2

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.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to July 1, 2016, rates were computed each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 52% and 51% 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.

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 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.

At December 31, 2017 and 2016, none of the Hospital's bank balances of \$993,898 and \$543,308, respectively, were exposed to custodial credit risk.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits – Hospital	\$ 943,896	\$ 475,116
Petty cash	345	345
	<u>944,241</u>	<u>475,461</u>
Deposits – Foundation	184,683	172,549
	<u>\$ 1,128,924</u>	<u>\$ 648,010</u>
Included in the following balance sheet captions:		
Cash	\$ 669,728	\$ 176,848
Short-term certificates of deposit	96,032	129,520
Restricted cash	329,446	341,642
Long-term certificates of deposit	33,718	-
	<u>\$ 1,128,924</u>	<u>\$ 648,010</u>

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:

	2017	2016
Medicare	\$ 336,954	\$ 497,725
Medicaid	176,815	211,758
Blue Cross	193,975	213,681
Other third-party payers	190,221	179,916
Patients	530,293	591,895
	<u>1,428,258</u>	<u>1,694,975</u>
Less allowance for uncollectible accounts	391,000	437,000
	<u>\$ 1,037,258</u>	<u>\$ 1,257,975</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

2017					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,904,500	-	-	-	4,904,500
Fixed equipment	3,486,299	-	-	-	3,486,299
Major moveable equipment	2,324,736	27,444	-	-	2,352,180
	<u>11,057,175</u>	<u>27,444</u>	<u>-</u>	<u>-</u>	<u>11,084,619</u>
Less accumulated depreciation					
Land improvements	207,607	1,479	-	-	209,086
Buildings	3,660,494	104,988	-	-	3,765,482
Fixed equipment	1,025,028	201,587	-	-	1,226,615
Major moveable equipment	2,114,805	106,300	-	-	2,221,105
	<u>7,007,934</u>	<u>414,354</u>	<u>-</u>	<u>-</u>	<u>7,422,288</u>
Capital Assets, Net	<u>\$4,049,241</u>	<u>\$ (386,910)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,662,331</u>

2016					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,904,500	-	-	-	4,904,500
Fixed equipment	3,417,248	-	-	69,051	3,486,299
Major moveable equipment	2,299,047	25,689	-	-	2,324,736
Construction in progress	69,051	-	-	(69,051)	-
	<u>11,031,486</u>	<u>25,689</u>	<u>-</u>	<u>-</u>	<u>11,057,175</u>
Less accumulated depreciation					
Land improvements	206,128	1,479	-	-	207,607
Buildings	3,555,472	105,022	-	-	3,660,494
Fixed equipment	812,401	212,627	-	-	1,025,028
Major moveable equipment	1,952,881	161,924	-	-	2,114,805
	<u>6,526,882</u>	<u>481,052</u>	<u>-</u>	<u>-</u>	<u>7,007,934</u>
Capital Assets, Net	<u>\$4,504,604</u>	<u>\$ (455,363)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,049,241</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2017	2016
Payable to suppliers and contractors	\$ 340,134	\$ 516,219
Payable to employees (including payroll taxes and benefits)	427,736	396,535
	<u>\$ 767,870</u>	<u>\$ 912,754</u>

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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 future.

Note 8: Long-term Debt

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

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 2,080,997	\$ -	\$ 306,922	\$ 1,774,075	\$ 262,800
Total long-term debt	<u>\$ 2,080,997</u>	<u>\$ -</u>	<u>\$ 306,922</u>	<u>\$ 1,774,075</u>	<u>\$ 262,800</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Western Cooperative					
Electric Loan - 2006	\$ 17,500	\$ -	\$ 17,500	\$ -	\$ -
Western Cooperative					
Electric Loan - 2010	-	-	-	-	-
Capital lease obligations	2,376,395	-	295,398	2,080,997	306,922
Total long-term debt	<u>\$ 2,393,895</u>	<u>\$ -</u>	<u>\$ 312,898</u>	<u>\$ 2,080,997</u>	<u>\$ 306,922</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2017 and 2016, totaled \$2,017,072 and \$2,269,418, respectively, net of accumulated depreciation of \$1,100,784 and \$848,439, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rates between 3.34% - 6.00% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	\$ 329,084
2019	286,457
2020	286,457
2021	286,457
2022	286,457
2023 - 2024	572,914
Total minimum lease payments	<u>2,047,826</u>
Less amount representing interest	<u>273,751</u>
Present value of future minimum lease payments	<u>\$ 1,774,075</u>

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2017 and 2016, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated \$177,157 and \$119,517 during 2017 and \$136,544 and \$102,874 during 2016, respectively.

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Notes to Financial Statements

December 31, 2017 and 2016

Note 10: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2017 and 2016:

	December 31, 2017		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 3,780,914	\$ 150,965	\$ 3,931,879
Capital assets, net	3,662,331	-	3,662,331
Other assets	-	189,860	189,860
Total assets	<u>\$ 7,443,245</u>	<u>\$ 340,825</u>	<u>\$ 7,784,070</u>
Liabilities			
Current liabilities	\$ 1,040,120	\$ -	\$ 1,040,120
Noncurrent liabilities	1,511,275	-	1,511,275
Total liabilities	<u>2,551,395</u>	<u>-</u>	<u>2,551,395</u>
Deferred Inflows of Resources - Property Taxes	<u>1,392,642</u>	<u>-</u>	<u>1,392,642</u>
Net Position			
Net investment in capital assets	1,698,396	189,860	1,888,256
Restricted – expendable for specific operating activities	42,111	-	42,111
Restricted – expendable for debt service	287,335	-	287,335
Unrestricted	1,471,366	150,965	1,622,331
Total net position	<u>3,499,208</u>	<u>340,825</u>	<u>3,840,033</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,443,245</u>	<u>\$ 340,825</u>	<u>\$ 7,784,070</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

	December 31, 2016		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 3,691,143	\$ 172,549	\$ 3,863,692
Capital assets, net	4,049,241	-	4,049,241
Other assets	-	156,142	156,142
Total assets	<u>\$ 7,740,384</u>	<u>\$ 328,691</u>	<u>\$ 8,069,075</u>
Liabilities			
Current liabilities	\$ 1,229,126	\$ -	\$ 1,229,126
Noncurrent liabilities	1,774,075	-	1,774,075
Total liabilities	<u>3,003,201</u>	<u>-</u>	<u>3,003,201</u>
Deferred Inflows of Resources - Property Taxes	<u>1,453,621</u>	<u>-</u>	<u>1,453,621</u>
Net Position			
Net investment in capital assets	1,812,102	156,142	1,968,244
Restricted – expendable for specific operating activities	54,691	-	54,691
Restricted – expendable for debt service	286,951	-	286,951
Unrestricted	1,129,818	172,549	1,302,367
Total net position	<u>3,283,562</u>	<u>328,691</u>	<u>3,612,253</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,740,384</u>	<u>\$ 328,691</u>	<u>\$ 8,069,075</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

The following tables include condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2017 and 2016:

	December 31, 2017		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	\$ 7,689,332	\$ -	\$ 7,689,332
Other	589,781	2,484	592,265
Total operating revenues	8,279,113	2,484	8,281,597
Operating Expenses			
Other operating expenses	9,250,402	7,450	9,257,852
Depreciation	414,354	-	414,354
Total operating expenses	9,664,756	7,450	9,672,206
Operating Loss	(1,385,643)	(4,966)	(1,390,609)
Nonoperating Revenues (Expenses)			
Property taxes	1,543,747	-	1,543,747
Interest income	1,819	663	2,482
Interest expense	(70,510)	-	(70,510)
Noncapital grants and gifts	70,393	-	70,393
Farm income	-	16,047	16,047
Farm expense	-	(630)	(630)
Total nonoperating revenues	1,545,449	16,080	1,561,529
Excess of Revenues Over Expenses Before Capital Grants and Gifts	159,806	11,114	170,920
Capital Grants and Gifts	55,840	1,020	56,860
Increase in Net Position	215,646	12,134	227,780
Net Position, Beginning of Year	3,283,562	328,691	3,612,253
Net Position, End of Year	\$ 3,499,208	\$ 340,825	\$ 3,840,033

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

	December 31, 2016		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	\$ 7,369,543	\$ -	\$ 7,369,543
Other	140,092	3,490	143,582
Total operating revenues	7,509,635	3,490	7,513,125
Operating Expenses			
Other operating expenses	9,024,114	20,674	9,044,788
Depreciation	481,052	-	481,052
Total operating expenses	9,505,166	20,674	9,525,840
Operating Loss	(1,995,531)	(17,184)	(2,012,715)
Nonoperating Revenues (Expenses)			
Property taxes	1,501,236	-	1,501,236
Interest income	1,203	640	1,843
Interest expense	(82,704)	-	(82,704)
Noncapital grants and gifts	65,752	-	65,752
Farm income	-	22,259	22,259
Farm expense	-	(842)	(842)
Total nonoperating revenues	1,485,487	22,057	1,507,544
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	(510,044)	4,873	(505,171)
Capital Grants and Gifts	40,605	6,645	47,250
Increase (Decrease) in Net Position	(469,439)	11,518	(457,921)
Net Position, Beginning of Year	3,753,001	317,173	4,070,174
Net Position, End of Year	\$ 3,283,562	\$ 328,691	\$ 3,612,253

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2017 and 2016

The following tables include condensed combining statement of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2017 and 2016:

	December 31, 2017		
	Hospital	Foundation	Total
Net Cash Used in Operating Activities	\$ (817,912)	\$ (4,966)	\$ (822,878)
Net Cash Provided by Noncapital Financing Activities	1,633,909	-	1,633,909
Net Cash Provided by (Used in) Related Financing Activities	(349,036)	1,020	(348,016)
Net Cash Provided by Investing Activities	<u>1,359</u>	<u>16,310</u>	<u>17,669</u>
Increase in Cash	468,320	12,364	480,684
Cash, Beginning of Year	<u>345,941</u>	<u>172,549</u>	<u>518,490</u>
Cash, End of Year	<u><u>\$ 814,261</u></u>	<u><u>\$ 184,913</u></u>	<u><u>\$ 999,174</u></u>

	December 31, 2016		
	Hospital	Foundation	Total
Net Cash Used in Operating Activities	\$ (1,643,115)	\$ (11,504)	\$ (1,654,619)
Net Cash Provided by (Used in) Noncapital Financing Activities	1,529,328	(5,680)	1,523,648
Net Cash Provided by (Used in) Related Financing Activities	(379,542)	6,645	(372,897)
Net Cash Provided by Investing Activities	<u>973</u>	<u>22,057</u>	<u>23,030</u>
Increase (Decrease) in Cash	(492,356)	11,518	(480,838)
Cash, Beginning of Year	<u>838,297</u>	<u>161,031</u>	<u>999,328</u>
Cash, End of Year	<u><u>\$ 345,941</u></u>	<u><u>\$ 172,549</u></u>	<u><u>\$ 518,490</u></u>

Supplementary Information

Ness County Hospital District No. 2
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2017

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	\$ 7,910,049	\$ 7,360,000	\$ 550,049
Other revenue	<u>592,265</u>	<u>133,000</u>	<u>459,265</u>
Total operating revenue	<u>8,502,314</u>	<u>7,493,000</u>	<u>1,009,314</u>
Operating expenses	9,642,870	9,777,318	(134,448)
Capital expenditures	<u>27,444</u>	<u>280,000</u>	<u>(252,556)</u>
Operating expenses	<u>9,670,314</u>	<u>10,057,318</u>	<u>(387,004)</u>
Operating loss	<u>(1,168,000)</u>	<u>(2,564,318)</u>	<u>1,396,318</u>
Property tax revenue	1,543,747	1,550,781	(7,034)
Other nonoperating revenues	<u>72,245</u>	<u>255,988</u>	<u>(183,743)</u>
Total nonoperating revenues	<u>1,615,992</u>	<u>1,806,769</u>	<u>(190,777)</u>
Excess (deficiency) of revenue over expenses	<u><u>\$ 447,992</u></u>	<u><u>\$ (757,549)</u></u>	<u><u>\$ 1,205,541</u></u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.