

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
HERINGTON MUNICIPAL HOSPITAL  
JUNE 30, 2018 AND 2017

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Herington Municipal Hospital

We have audited the accompanying financial statements of the business-type activity of Herington Municipal Hospital (Hospital), a component unit of the City of Herington, Kansas, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Herington Municipal 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 Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits 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 respective financial position of the business-type activity of Herington Municipal Hospital as of June 30, 2018 and 2017, and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Uncertainty Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note B to the financial statements, the Hospital's history of operating losses and negative cash flows raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Other-Matters**

### **Required Supplementary Information**

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

*Wendling Nae Nelson & Johnson 22C*

Topeka, Kansas  
December 21, 2018

FINANCIAL STATEMENTS

HERINGTON MUNICIPAL HOSPITAL  
STATEMENTS OF NET POSITION  
June 30,

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 106,678	\$ 73,098
Assets limited as to use	6,567	53,254
Patient accounts receivable, net	1,096,563	1,602,841
Other receivables	67,387	126,073
Estimated third-party payor settlements		41,252
Inventories	127,323	128,677
Prepaid expenses	<u>19,299</u>	<u>19,321</u>
Total current assets	<u>1,423,817</u>	<u>2,044,516</u>
ASSETS LIMITED AS TO USE		
By Board of Trustees		
For capital assets	7,517	22,243
For operations	6,156	53,155
For health claims and benefits	411	99
By donors	<u>7,124</u>	<u>7,124</u>
Total assets limited as to use	21,208	82,621
Less amounts required to meet current obligations	<u>6,567</u>	<u>53,254</u>
	<u>14,641</u>	<u>29,367</u>
CAPITAL ASSETS, NET	<u>1,574,514</u>	<u>934,853</u>
Total assets	<u>\$ 3,012,972</u>	<u>\$ 3,008,736</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Bank overdraft	\$ -	\$ 83,377
Current portion of long-term debt and capital lease obligations	233,695	146,498
Line of credit	186,000	300,000
Accounts payable	899,333	1,275,898
Accrued salaries, wages, and benefits	100,724	140,470
Due to City of Herington	123,656	32,248
Accrued compensated absences	97,013	95,505
Estimated third-party payor settlements	<u>465,000</u>	
Total current liabilities	<u>2,105,421</u>	<u>2,073,996</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current portion		
Long-term debt and capital lease obligations	<u>999,975</u>	<u>248,192</u>
Total long-term liabilities	<u>999,975</u>	<u>248,192</u>
Total liabilities	<u>3,105,396</u>	<u>2,322,188</u>
NET POSITION		
Invested in capital assets, net of related debt	340,844	546,156
Expendable for hospital activities	7,124	7,124
Unrestricted	<u>(440,392)</u>	<u>133,268</u>
Total net position	<u>(92,424)</u>	<u>686,548</u>
Total liabilities and net position	<u>\$ 3,012,972</u>	<u>\$ 3,008,736</u>

HERINGTON MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
Year ended June 30,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 6,145,158	\$ 8,773,376
Other	<u>730,704</u>	<u>1,071,161</u>
Total operating revenues	<u>6,875,862</u>	<u>9,844,537</u>
Operating expenses		
Salaries and wages	2,900,605	3,717,497
Employee benefits	658,948	1,120,215
Supplies and other	3,796,468	5,569,926
Depreciation and amortization	<u>432,731</u>	<u>236,997</u>
Total operating expenses	<u>7,788,752</u>	<u>10,644,635</u>
Operating loss	<u>(912,890)</u>	<u>(800,098)</u>
Nonoperating revenues and expenses		
Interest income	11,549	1,839
Interest expense	(100,303)	(44,483)
Tax revenues	197,995	260,363
Noncapital contributions	<u>24,677</u>	<u>71,160</u>
Total nonoperating revenues	<u>133,918</u>	<u>288,879</u>
Excess of expenses over revenues and change in net position	(778,972)	(511,219)
Net position, beginning of year	<u>686,548</u>	<u>1,197,767</u>
Net position, end of year	<u>\$ (92,424)</u>	<u>\$ 686,548</u>

The accompanying notes are an integral part of these statements.



HERINGTON MUNICIPAL HOSPITAL

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 7,157,688	\$ 8,233,820
Payments to or on behalf of employees	(3,597,791)	(4,710,615)
Payments for supplies and services	(4,080,249)	(5,032,884)
Other receipts and payments	<u>763,158</u>	<u>1,063,172</u>
Net cash provided (used) by operating activities	<u>242,806</u>	<u>(446,507)</u>
Cash flows from noncapital financing activities		
Interest paid	(27,548)	(22,558)
Payments on line of credit	(114,000)	
Tax revenues	224,227	252,080
Noncapital transfers and contributions	<u>24,677</u>	<u>71,160</u>
Net cash provided by noncapital financing activities	<u>107,356</u>	<u>300,682</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets		28,569
Proceeds from notes payable	19,399	53,709
Principal payments on long-term debt and capital lease obligations	(252,811)	(164,452)
Interest paid on capital related debt	<u>(72,755)</u>	<u>(21,925)</u>
Net cash used by capital and related financing activities	<u>(306,167)</u>	<u>(104,099)</u>
Cash flows from investing activities		
Interest received	<u>11,549</u>	<u>1,839</u>
Net cash provided by investing activities	<u>11,549</u>	<u>1,839</u>
Change in cash and cash equivalents	55,544	(248,085)
Cash and cash equivalents at beginning of year	<u>72,342</u>	<u>320,427</u>
Cash and cash equivalents at end of year	<u>\$ 127,886</u>	<u>\$ 72,342</u>
As presented in the Statement of Net Position		
Cash and cash equivalents	\$ 106,678	\$ 73,098
Assets limited as to use	21,208	82,621
Bank overdraft	<u></u>	<u>(83,377)</u>
	<u>\$ 127,886</u>	<u>\$ 72,342</u>

The accompanying notes are an integral part of these statements.

HERINGTON MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended June 30,

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (912,890)	\$ (800,098)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	432,731	236,997
Provision for bad debts	421,741	783,612
Changes in		
Patient accounts receivable	84,537	(1,313,450)
Other receivables	32,454	(7,989)
Inventories, prepaid expenses, and other investments	1,376	124,911
Accounts payable and accrued expenses	(323,395)	539,228
Estimated third-party payor settlements	<u>506,252</u>	<u>(9,718)</u>
Net cash provided (used) by operating activities	<u>\$ 242,806</u>	<u>\$ (446,507)</u>

Supplemental schedule of noncash investing and financing activities.

The Hospital entered into capital lease obligations for equipment totaling \$1,072,392 during 2018 and \$23,708 in 2017.

The accompanying notes are an integral part of these statements.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

Herington Municipal Hospital (Hospital), a political subdivision of the State of Kansas, is located in Herington, Kansas, and was organized for the purpose of providing inpatient and outpatient health care services to patients. The Hospital is governed by a five-member Board of Trustees elected by the voters of the City. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the City. The Hospital is a component unit of the City of Herington, Kansas, for financial statement purposes. The Hospital is licensed as a Critical Access Hospital (CAH) with a bed capacity of 25 beds. The Herington organization includes a distinct and separate legal entity, Herington Municipal Hospital Foundation (Foundation).

2. Component unit

The Herington Municipal Hospital Foundation is a legally separate 501(c)(3) Corporation, incorporated in the State of Kansas. The Foundation was originally formed for the purpose of acquiring a long-term care unit. In 2006, the name was changed to Herington Municipal Hospital Foundation. The Foundation was established as a public charitable foundation with the mission of raising funds for the Hospital. The Foundation is administered by a self-perpetuating Board of Directors which is appointed by the Hospital who is the sole member of the Foundation. The Hospital's financial statements include the Foundation as a component unit under the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

3. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital's financial statements are comprised solely of an enterprise fund that uses proprietary fund accounting. The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments purchased with a maturity of three months or less.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

6. Allowance for uncollectible accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience.

7. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method, or market.

8. Assets limited as to use

Assets limited as to use include cash set aside by the Board of Trustees for purchase of capital assets and for payment of self-insured health claims, over which the Board retains control and may at its discretion subsequently use for other purposes; and cash restricted as to use by donors.

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are substantially in conformity with useful life guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the items or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

10. Accrued compensated absences

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

11. Net position

Net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" consists of net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted expendable net position."

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

12. 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 result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, 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.

14. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The identified amount of charges forgone for services and supplies furnished under the Hospital's charity care policy is disclosed in Note B.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

16. Subsequent events

The Hospital's management has evaluated all subsequent events through the date of the independent certified public accountant's report, which is the date the financial statements were available to be issued.

NOTE B - MANAGEMENT'S CONSIDERATION OF GOING CONCERN MATTERS

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Hospital as a going concern. The Hospital, however, incurred an operating loss of \$912,890 in 2018 and a decrease in net position of \$778,972. Unrestricted net position declined to \$(440,392) deficit in 2018. In addition to the above, the Hospital's liquidity position remains challenging with current assets equaling 68 percent of current liabilities.



HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE B - MANAGEMENT'S CONSIDERATION OF GOING CONCERN MATTERS - Continued

In view of the matter described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Hospital which, in turn, is dependent upon the Hospital's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments related to the recoverability of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Hospital be unable to continue in existence.

In 2018, the Hospital's total revenue decreased by approximately \$2,970,000, and total expenses decreased by \$2,850,000. The Hospital administration and management team recognizes the issues presented with the low liquidity position and the decrease in the net position of the Hospital.

During recent months, management has implemented several actions and made changes in an effort to improve financial stability. Those changes include:

- The Hospital moved from providing no cost health insurance to an employee contribution model on January 1, 2018. This change reduced health insurance expenses \$330,261 in fiscal year 2018 with the majority of the decrease occurring between January 1, 2018 and June 30, 2018.
- The Hospital adjusted its emergency room and rural health clinic provider staffing in fiscal year 2018 which has brought stability of medical personnel.
- Fundraising efforts resulted in sufficient funds to address immediate deferred maintenance needs of the Hospital.

Management continues to identify areas for improvement. Immediate plans include:

- The Hospital is actively recruiting a primary care physician to the Herington Community which will help stabilize the Hospital's capacity to generate revenues.
- The Hospital in conjunction with the City of Herington renewed the sales tax support on March 1, 2018. The Hospital was without sales tax support for three months in fiscal year 2018.
- The Hospital is reviewing the potential of adding additional services to increase hospital utilization and revenues.
- The Hospital is reviewing its charge master to ensure optimal coding, billing, and revenue collections while also being focused on expense reductions and reducing fixed costs.

Management believes that the actions taken will enable the Hospital to generate sufficient cash flows to sustain operations.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE C - 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 charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through June 30, 2016.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

The Hospital has also entered into payment agreements with certain commercial insurance carriers 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.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE C - NET PATIENT SERVICE REVENUE - Continued

A summary of gross and net patient service revenue follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue		
Inpatient	\$ 2,214,425	\$ 3,498,635
Outpatient	6,805,839	9,271,043
Physician services	375,743	530,431
Rural health clinic	<u>672,039</u>	<u>1,077,588</u>
	10,068,046	14,377,697
Contractual adjustments	(2,966,625)	(4,687,836)
Discounts	(529,460)	(82,437)
Charity care	(5,062)	(50,436)
Provision for bad debts	<u>(421,741)</u>	<u>(783,612)</u>
Net patient service revenue	<u>\$ 6,145,158</u>	<u>\$ 8,773,376</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 82 percent and 4 percent, respectively, of the Hospital's net patient service revenue during 2018, and 69 percent and 5 percent, respectively, of the Hospital's net patient service revenue during 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2018 and 2017 was \$5,062 and \$50,436, respectively. The Hospital estimates that the cost of providing charity care, based on an overall ratio of cost-to-charges for 2018 and 2017 was \$3,770 and \$35,370, respectively.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged and deposited with designated depositories for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At June 30, 2018, the carrying amount of the Hospital's and Foundation's bank balances were \$199,760. The bank balances are covered by federal depository insurance or pledged securities, which are held in the name of the financial institution and pledged on behalf of the Hospital or Foundation.



HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE E - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable	\$ 2,007,290	\$ 3,347,176
Less		
Allowance for contractual adjustments	(348,001)	(839,869)
Allowance for uncollectible accounts	<u>(562,726)</u>	<u>(904,466)</u>
	<u>\$ 1,096,563</u>	<u>\$ 1,602,841</u>

The Hospital's allowance for uncollectible accounts was 82 percent and 80 percent of self-pay accounts receivable as of June 30, 2018 and 2017, respectively. The Hospital's net bad debt write-offs were \$763,481 and \$291,201 for the years ended June 30, 2018 and 2017, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended June 30, 2018 or 2017. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use, held by the Hospital and the Foundation, are carried at fair value and consist of cash.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE G - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2018			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 26,813	\$ -	\$ -	\$ 26,813
Land improvements	49,603			49,603
Buildings	1,677,107			1,677,107
Fixed equipment	1,204,073			1,204,073
Movable equipment	2,293,369		8,319	2,301,688
Software license		1,072,392		1,072,392
Totals at historical cost	<u>5,250,965</u>	<u>1,072,392</u>	<u>8,319</u>	<u>6,331,676</u>
Less accumulated depreciation				
Land improvements	49,603			49,603
Buildings	1,393,117	30,744		1,423,861
Fixed equipment	1,047,237	24,526		1,071,763
Movable equipment	1,834,474	162,983		1,997,457
Software license		214,478		214,478
	<u>4,324,431</u>	<u>432,731</u>	<u>-</u>	<u>4,757,162</u>
Construction in progress	<u>8,319</u>		<u>(8,319)</u>	<u>-</u>
Capital assets, net	<u>\$ 934,853</u>	<u>\$ 639,661</u>	<u>\$ -</u>	<u>\$ 1,574,514</u>

  

	2017			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 26,813	\$ -	\$ -	\$ 26,813
Land improvements	49,603			49,603
Buildings	1,677,107			1,677,107
Fixed equipment	1,192,161	11,912		1,204,073
Movable equipment	<u>2,244,353</u>	<u>49,016</u>		<u>2,293,369</u>
Totals at historical cost	<u>5,190,037</u>	<u>60,928</u>	<u>-</u>	<u>5,250,965</u>
Less accumulated depreciation				
Land improvements	49,603			49,603
Buildings	1,357,199	35,918		1,393,117
Fixed equipment	1,021,561	25,676		1,047,237
Movable equipment	<u>1,659,071</u>	<u>175,403</u>		<u>1,834,474</u>
	<u>4,087,434</u>	<u>236,997</u>	<u>-</u>	<u>4,324,431</u>
Construction in progress	<u>5,102</u>	<u>3,217</u>	<u>-</u>	<u>8,319</u>
Capital assets, net	<u>\$ 1,107,705</u>	<u>\$ (172,852)</u>	<u>\$ -</u>	<u>\$ 934,853</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE G - CAPITAL ASSETS - Continued

Capital assets include the following property under capital leases at June 30:

	<u>2018</u>	<u>2017</u>
Equipment and software	\$ 1,749,971	\$ 665,679
Less accumulated amortization	<u>660,615</u>	<u>306,179</u>
	<u>\$ 1,089,356</u>	<u>\$ 359,500</u>

NOTE H - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	<u>2018</u>	<u>2017</u>
Noninterest bearing loan from the City of Herington	\$ -	\$ 5,993
Note payable to bank, interest rate of 6.95%, due in 60 monthly payments with the last payment due July 2021	7,858	10,080
Note payable to vendor, interest rate of 6.00%, due in 12 monthly payments with the last payment due March 2018	4,849	17,429
Note payable to vendor, interest rate of 9.15%, due in 12 monthly payments with the last payment due December 2018	2,985	
Software license agreement, imputed interest rate of 5.5%, due in 60 monthly payments with the last payment due March 2022	983,563	
Capital lease obligations (4.0% to 12.34%) secured by equipment and software	<u>234,415</u>	<u>361,188</u>
	1,233,670	394,690
Less current portion	<u>233,695</u>	<u>146,498</u>
Noncurrent portion	<u>\$ 999,975</u>	<u>\$ 248,192</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE H - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt activity for the years ended June 30, is as follows:

	2018					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Loan from City of Herington	\$ 5,993	\$ -	\$ (5,993)	\$ -	\$ -	\$ -
Note payable	27,509	19,399	(31,216)	15,692	10,224	5,468
Software license		1,072,392	(88,829)	983,563	87,729	895,834
Capital leases	361,188		(126,773)	234,415	135,742	98,673
	<u>\$ 394,690</u>	<u>\$ 1,091,791</u>	<u>\$ (252,811)</u>	<u>\$ 1,233,670</u>	<u>\$ 233,695</u>	<u>\$ 999,975</u>

  

	2017					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>	<u>Long-term portion</u>
Loan from City of Herington	\$ 13,997	\$ -	\$ (8,004)	\$ 5,993	\$ 5,993	\$ -
Note payable	12,000	53,709	(38,200)	27,509	19,658	7,851
Capital leases	386,722	92,714	(118,248)	361,188	120,847	240,341
	<u>\$ 412,719</u>	<u>\$ 146,423</u>	<u>\$ (164,452)</u>	<u>\$ 394,690</u>	<u>\$ 146,498</u>	<u>\$ 248,192</u>

The following is a yearly schedule of future minimum lease payments under software licenses and capital lease obligations at June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 223,471	\$ 64,955	\$ 288,426
2019	268,204	51,810	320,014
2020	407,639	30,952	438,591
2021	318,664	7,874	326,538
Total minimum lease payments	<u>\$ 1,217,978</u>	<u>\$ 155,591</u>	<u>\$ 1,373,569</u>

NOTE I - LINE OF CREDIT

The Hospital drew \$300,000 on a line of credit during fiscal year 2016 of which \$186,000 remained outstanding at June 30, 2018. The line of credit is collateralized by the Hospital's accounts receivable, inventory, and unencumbered equipment and bears interest at a rate of 7.50 percent. There is \$114,000 remaining credit available under the agreement at June 30, 2018, and it matures on August 10, 2021.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE J - PENSION PLAN

The Hospital maintains a defined contributory pension plan for all eligible employees. Eligibility is established by all employees 21 years of age or older who have completed 1,000 hours of service for the year. Employer and employee contributions were computed at the rate of 3.0 percent through December 31, 2017, and 2.0 percent effective January 1, 2018, of annual employee compensation, respectively. Contributions to the plan made by employees vest immediately and contributions to the plan made by the Hospital vest based upon the plan's vesting schedule with all employer contributions fully vested after five years of service. The total cost of the plan for the years ended June 30, 2018 and 2017, was \$44,918 and \$68,667, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

The Hospital has entered into a self-insured trust agreement with the Kansas Hospital Association, along with other qualified hospitals in the state of Kansas. The purpose of this trust is to purchase workers' compensation insurance for employees. To the extent the trust would be unable to meet its claims liabilities, members have, jointly and severally, agreed to pay for all claims. Management has assessed the financial condition of the trust and believes that the trust is sufficiently funded to meet its liabilities as they come due as of June 30, 2018. Management is also not aware of any intention by the trust to implement an assessment in the future for past funding shortages.

The Hospital is in litigation related to nonpayment of two separate unrelated agreements. The Hospital has retained an attorney to represent the Hospital's interest. The Hospital has not accrued a specific liability related to these matters as the range of loss is not reasonably estimable at the date of the report on the financial statements.

NOTE L - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2018</u>	<u>2017</u>
Medicare	35%	37%
Medicaid	7	5
Blue Cross	8	10
Commercial	16	15
Self-pay	<u>34</u>	<u>33</u>
	<u>100%</u>	<u>100%</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE M - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies were renewed for the policy period from June 30, 2018 to June 30, 2019. Management is not aware of any open asserted claims as of June 30, 2018. It is possible that other claims may be asserted arising from past services provided.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE N - RELATED PARTY TRANSACTIONS

The Hospital purchases utilities from the City of Herington and recognized total expense of \$122,688 and \$142,276, respectively, during the years ended June 30, 2018 and 2017. As of June 30, 2018 and 2017, the Hospital owed the City of Herington a total of \$129,124 and \$38,241, respectively. A liability of \$123,656 and \$32,248 is reflected on the statement of net position as a current liability due to the City of Herington in 2018 and 2017, respectively.

The Hospital receives property tax revenues from the City and recognized revenues of \$6,884 and \$2,533, respectively, in 2018 and 2017. The City collects sales tax on behalf of the Hospital. The sales tax was in effect for the period July 1, 2016 through December 31, 2017, and from April 1, 2018 through June 30, 2018, and continues to be in effect. At June 30, 2018 and 2017, the Hospital has recorded a receivable for sales taxes collected and not yet remitted to the Hospital of \$42,688 and \$68,920, respectively. Sales tax revenues recognized for the years ended June 30, 2018 and 2017, was \$201,364 and \$257,829, respectively.

Herington Municipal Hospital Foundation is a component unit of the Hospital (see Note A1). The Foundation periodically transfers funds to the Hospital to support the Hospital's mission. During 2018 and 2017, the Foundation transferred \$0 and \$40,555, respectively, to the Hospital for the purchase of equipment or capital improvements to the building.

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION

The following tables are condensed statements of net position for the Hospital and its blended component unit:

	2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 100,525	\$ 6,153	\$ -	\$ 106,678
Assets limited as to use	6,567			6,567
Patient accounts receivable, net	1,096,563			1,096,563
Other receivables	67,387	50,000	(50,000)	67,387
Estimated third-party payor settlements				
Inventories	127,323			127,323
Prepaid expenses	19,299			19,299
Total current assets	<u>1,417,664</u>	<u>56,153</u>	<u>(50,000)</u>	<u>1,423,817</u>
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For capital assets	7,517			7,517
For operations	6,156			6,156
For health claims and benefits	411			411
By donors		7,124		7,124
Total assets limited as to use	<u>14,084</u>	<u>7,124</u>		<u>21,208</u>
Less amounts required to meet current obligations	<u>6,567</u>			<u>6,567</u>
	<u>7,517</u>	<u>7,124</u>	<u>-</u>	<u>14,641</u>
CAPITAL ASSETS, NET	<u>1,574,514</u>	<u>-</u>	<u>-</u>	<u>1,574,514</u>
Total assets	<u>\$ 2,999,695</u>	<u>\$ 63,277</u>	<u>\$ (50,000)</u>	<u>\$ 3,012,972</u>



HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Bank overdraft	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt and capital lease obligations	283,695		(50,000)	233,695
Line of credit	186,000			186,000
Accounts payable	899,333			899,333
Accrued salaries, wages, and benefits	100,724			100,724
Due to City of Herington	123,656			123,656
Accrued compensated absences	97,013			97,013
Estimated third-party payor settlements	465,000			465,000
Total current liabilities	<u>2,155,421</u>	<u>-</u>	<u>(50,000)</u>	<u>2,105,421</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current portion				
Long-term debt and capital lease obligations	<u>999,975</u>			<u>999,975</u>
Total long-term liabilities	<u>999,975</u>	<u>-</u>	<u>-</u>	<u>999,975</u>
Total liabilities	<u>3,155,396</u>	<u>-</u>	<u>(50,000)</u>	<u>3,105,396</u>
NET POSITION				
Invested in capital assets, net of related debt	340,844			340,844
Restricted for hospital activities		7,124		7,124
Unrestricted	<u>(496,545)</u>	<u>56,153</u>		<u>(440,392)</u>
Total net position	<u>(155,701)</u>	<u>63,277</u>	<u>-</u>	<u>(92,424)</u>
Total liabilities and net position	<u>\$ 2,999,695</u>	<u>\$ 63,277</u>	<u>\$ (50,000)</u>	<u>\$ 3,012,972</u>



HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 20,656	\$ 52,442	\$ -	\$ 73,098
Assets limited as to use	53,254			53,254
Patient accounts receivable, net	1,602,841			1,602,841
Other receivables	126,073			126,073
Estimated third-party payor settlements	41,252			41,252
Inventories	128,677			128,677
Prepaid expenses	19,321			19,321
Total current assets	<u>1,992,074</u>	<u>52,442</u>	<u>-</u>	<u>2,044,516</u>
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For capital assets	22,243			22,243
For operations	53,155			53,155
For health claims and benefits	99			99
By donors		7,124		7,124
Total assets limited as to use	<u>75,497</u>	<u>7,124</u>		<u>82,621</u>
Less amounts required to meet current obligations	<u>53,254</u>			<u>53,254</u>
	<u>22,243</u>	<u>7,124</u>	<u>-</u>	<u>29,367</u>
CAPITAL ASSETS, NET	<u>934,853</u>	<u>-</u>	<u>-</u>	<u>934,853</u>
Total assets	<u>\$ 2,949,170</u>	<u>\$ 59,566</u>	<u>\$ -</u>	<u>\$ 3,008,736</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Bank overdraft	\$ 83,377	\$ -	\$ -	\$ 83,377
Current portion of long-term debt and capital lease obligations	146,498			146,498
Line of credit	300,000			300,000
Accounts payable	1,275,898			1,275,898
Accrued salaries, wages, and benefits	140,470			140,470
Due to City of Herington	32,248			32,248
Accrued compensated absences	95,505			95,505
Estimated third-party payor settlements				
Total current liabilities	<u>2,073,996</u>	<u>-</u>	<u>-</u>	<u>2,073,996</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current portion				
Long-term debt and capital lease obligations	<u>248,192</u>			<u>248,192</u>
Total long-term liabilities	<u>248,192</u>	<u>-</u>	<u>-</u>	<u>248,192</u>
Total liabilities	<u>2,322,188</u>	<u>-</u>	<u>-</u>	<u>2,322,188</u>
NET POSITION				
Invested in capital assets, net of related debt	546,156			546,156
Restricted for hospital activities		7,124		7,124
Unrestricted	<u>80,826</u>	<u>52,442</u>		<u>133,268</u>
Total net position	<u>626,982</u>	<u>59,566</u>	<u>-</u>	<u>686,548</u>
Total liabilities and net position	<u>\$ 2,949,170</u>	<u>\$ 59,566</u>	<u>\$ -</u>	<u>\$ 3,008,736</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

The following tables are condensed statements of revenues, expenses, and changes in net position for the Hospital and its blended component unit:

	2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues				
Net patient service revenue	\$ 6,145,158	\$ -	\$ -	\$ 6,145,158
Other	730,704			730,704
Total operating revenues	<u>6,875,862</u>	<u>-</u>	<u>-</u>	<u>6,875,862</u>
Operating expenses				
Salaries and wages	2,900,605			2,900,605
Employee benefits	658,948			658,948
Supplies and other	3,795,976	492		3,796,468
Depreciation and amortization	432,731			432,731
Total operating expenses	<u>7,788,260</u>	<u>492</u>	<u>-</u>	<u>7,788,752</u>
Operating loss	<u>(912,398)</u>	<u>(492)</u>	<u>-</u>	<u>(912,890)</u>
Nonoperating revenues and expenses				
Interest income	11,498	51		11,549
Interest expense	(100,303)			(100,303)
Tax revenues	197,995			197,995
Noncapital contributions	20,525	4,152		24,677
Other				-
Total nonoperating revenues	<u>129,715</u>	<u>4,203</u>	<u>-</u>	<u>133,918</u>
Excess of expenses over revenues before capital grants and contributions and transfers	<u>(782,683)</u>	<u>3,711</u>	<u>-</u>	<u>(778,972)</u>
Capital grants and contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(782,683)</u>	<u>3,711</u>	<u>-</u>	<u>(778,972)</u>
Net position, beginning of year	<u>626,982</u>	<u>59,566</u>	<u>-</u>	<u>686,548</u>
Net position, end of year	<u>\$ (155,701)</u>	<u>\$ 63,277</u>	<u>\$ -</u>	<u>\$ (92,424)</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues				
Net patient service revenue	\$ 8,773,376	\$ -	\$ -	\$ 8,773,376
Other	<u>1,071,161</u>	<u>          </u>	<u>          </u>	<u>1,071,161</u>
Total operating revenues	<u>9,844,537</u>	<u>-</u>	<u>-</u>	<u>9,844,537</u>
Operating expenses				
Salaries and wages	3,717,497			3,717,497
Employee benefits	1,120,215			1,120,215
Supplies and other	5,565,380	4,546		5,569,926
Depreciation and amortization	<u>236,997</u>	<u>          </u>	<u>          </u>	<u>236,997</u>
Total operating expenses	<u>10,640,089</u>	<u>4,546</u>	<u>-</u>	<u>10,644,635</u>
Operating loss	<u>(795,552)</u>	<u>(4,546)</u>	<u>-</u>	<u>(800,098)</u>
Nonoperating revenues and expenses				
Interest income	1,583	256		1,839
Interest expense	(44,483)			(44,483)
Tax revenues	260,363			260,363
Noncapital contributions	27,749	43,411		71,160
Other	<u>          </u>	<u>(40,555)</u>	<u>40,555</u>	<u>-</u>
Total nonoperating revenues	<u>245,212</u>	<u>3,112</u>	<u>40,555</u>	<u>288,879</u>
Excess of expenses over revenues before capital grants and contributions and transfers	(550,340)	(1,434)	40,555	(511,219)
Capital grants and contributions	<u>40,555</u>	<u>          </u>	<u>(40,555)</u>	<u>-</u>
Decrease in net position	(509,785)	(1,434)	-	(511,219)
Net position, beginning of year	<u>1,136,767</u>	<u>61,000</u>	<u>          </u>	<u>1,197,767</u>
Net position, end of year	<u>\$ 626,982</u>	<u>\$ 59,566</u>	<u>\$ -</u>	<u>\$ 686,548</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

The following tables are considered statements of cash flows for the Hospital and its blended component unit:

	2018		
	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from and on behalf of patients	\$ 7,157,688	\$ -	\$ 7,157,688
Payments to or on behalf of employees	(3,597,791)		(3,597,791)
Payments for supplies and services	(4,079,757)	(492)	(4,080,249)
Other receipts and payments	<u>763,158</u>		<u>763,158</u>
Net cash provided (used) by operating activities	<u>243,298</u>	<u>(492)</u>	<u>242,806</u>
Cash flows from noncapital financing activities			
Interest paid	(27,548)		(27,548)
Payments on line of credit	(114,000)		(114,000)
Tax revenues	224,227		224,227
Noncapital transfers and contributions	<u>20,525</u>	<u>4,152</u>	<u>24,677</u>
Net cash provided by noncapital financing activities	<u>103,204</u>	<u>4,152</u>	<u>107,356</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets			
Grants and contributions for capital			
Proceeds from notes payable	69,399	(50,000)	19,399
Principal payments on long-term debt and capital lease obligations	(252,811)		(252,811)
Interest paid on capital related debt	<u>(72,755)</u>		<u>(72,755)</u>
Net cash used by capital and related financing activities	<u>(256,167)</u>	<u>(50,000)</u>	<u>(306,167)</u>
Cash flows from investing activities			
Interest received	<u>11,498</u>	<u>51</u>	<u>11,549</u>
Net cash provided by investing activities	<u>11,498</u>	<u>51</u>	<u>11,549</u>
Change in cash and cash equivalents	101,833	(46,289)	55,544
Cash and cash equivalents at beginning of year	<u>12,776</u>	<u>59,566</u>	<u>72,342</u>
Cash and cash equivalents at end of year	<u>\$ 114,609</u>	<u>\$ 13,277</u>	<u>\$ 127,886</u>
As reported on the Statement of Net Position			
Cash and cash equivalents	\$ 100,525	\$ 6,153	\$ 106,678
Assets limited as to use	14,084	7,124	21,208
Bank overdraft			
	<u>\$ 114,609</u>	<u>\$ 13,277</u>	<u>\$ 127,886</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2018		
	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (912,398)	\$ (492)	\$ (912,890)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	432,731		432,731
Provision for bad debts	421,741		421,741
Changes in			
Patient accounts receivable	84,537		84,537
Other receivables	32,454		32,454
Inventories, prepaid expenses, and other investments	1,376		1,376
Accounts payable and accrued liabilities	(323,395)		(323,395)
Estimated third-party payor settlements	<u>506,252</u>		<u>506,252</u>
Net cash provided (used) by operating activities	<u>\$ 243,298</u>	<u>\$ (492)</u>	<u>\$ 242,806</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2017		
	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from and on behalf of patients	\$ 8,233,820	\$ -	\$ 8,233,820
Payments to or on behalf of employees	(4,710,615)		(4,710,615)
Payments for supplies and services	(5,028,338)	(4,546)	(5,032,884)
Other receipts and payments	<u>1,063,172</u>	<u></u>	<u>1,063,172</u>
Net cash used by operating activities	<u>(441,961)</u>	<u>(4,546)</u>	<u>(446,507)</u>
Cash flows from noncapital financing activities			
Interest paid	(22,558)		(22,558)
Payments on line of credit			
Tax revenues	252,080		252,080
Noncapital transfers and contributions	<u>27,749</u>	<u>43,411</u>	<u>71,160</u>
Net cash provided by noncapital financing activities	<u>257,271</u>	<u>43,411</u>	<u>300,682</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	28,569		28,569
Grants and contributions for capital	40,555	(40,555)	
Proceeds from notes payable	53,709		53,709
Principal payments on long-term debt and capital lease obligations	(164,452)		(164,452)
Interest paid on capital related debt	<u>(21,925)</u>	<u></u>	<u>(21,925)</u>
Net cash used by capital and related financing activities	<u>(63,544)</u>	<u>(40,555)</u>	<u>(104,099)</u>
Cash flows from investing activities			
Interest received	<u>1,583</u>	<u>256</u>	<u>1,839</u>
Net cash provided by investing activities	<u>1,583</u>	<u>256</u>	<u>1,839</u>
Change in cash and cash equivalents	(246,651)	(1,434)	(248,085)
Cash and cash equivalents at beginning of year	<u>259,427</u>	<u>61,000</u>	<u>320,427</u>
Cash and cash equivalents at end of year	<u>\$ 12,776</u>	<u>\$ 59,566</u>	<u>\$ 72,342</u>
As reported on the Statement of Net Position			
Cash and cash equivalents	\$ 20,656	\$ 52,442	\$ 73,098
Assets limited as to use	75,497	7,124	82,621
Bank overdraft	<u>(83,377)</u>	<u></u>	<u>(83,377)</u>
	<u>\$ 12,776</u>	<u>\$ 59,566</u>	<u>\$ 72,342</u>

HERINGTON MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
June 30, 2018 and 2017

NOTE O - COMBINING INFORMATION - Continued

	2017		
	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	\$ (795,552)	\$ (4,546)	\$ (800,098)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	236,997		236,997
Provision for bad debts	783,612		783,612
Changes in			
Patient accounts receivable	(1,313,450)		(1,313,450)
Other receivables	(7,989)		(7,989)
Inventories, prepaid expenses, and other investments	124,911		124,911
Accounts payable and accrued liabilities	539,228		539,228
Estimated third-party payor settlements	(9,718)		(9,718)
Net cash used by operating activities	<u>\$ (441,961)</u>	<u>\$ (4,546)</u>	<u>\$ (446,507)</u>