

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ANDERSON COUNTY HOSPITAL
DECEMBER 31, 2017 AND 2016

CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	4
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	6
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	10
SUPPLEMENTARY INFORMATION	
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY	20

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Anderson County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position decreased by \$1,780,710 or 7.7 percent and by \$1,884,512 or 7.6 percent during the 2017 and 2016 fiscal years, respectively.

The net position of Anderson County Hospital Foundation (the Foundation), a component unit of the Hospital, increased by \$15,219 or 6.6 percent in 2017, and decreased by \$171,763 or 42.5 percent in 2016.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's physical plant and measures of the quality of facilities it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current assets	\$ 235,830	\$ 165,849	\$ 323,216
Assets limited as to use	657,081	653,270	633,589
Capital assets, net	20,049,051	21,897,300	23,814,741
Other assets	385,808	385,808	385,808
Total assets	<u>\$ 21,327,770</u>	<u>\$ 23,102,227</u>	<u>\$ 25,157,354</u>
Liabilities			
Current liabilities	\$ 102,578	\$ 96,325	\$ 266,940
Long-term obligations			
Total liabilities	<u>\$ 102,578</u>	<u>\$ 96,325</u>	<u>\$ 266,940</u>
Net position	<u>\$ 21,225,192</u>	<u>\$ 23,005,902</u>	<u>\$ 24,890,414</u>

Net capital assets decreased during 2017, 2016, and 2015 due to depreciation expense exceeding acquisitions.

On April 2, 2013, a majority of the qualified electors of Anderson County, Kansas (the County), approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement Bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution.

The Hospital's net position decreased by \$1,780,710 or 7.7 percent and decreased by \$1,884,512 or 7.6 percent during the 2017 and 2016 fiscal years, respectively.

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

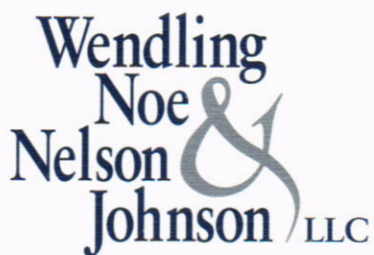
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,106,500	\$ 1,105,039	\$ 1,084,245
Operating expenses	<u>1,897,860</u>	<u>1,987,160</u>	<u>2,123,830</u>
Operating loss	(791,360)	(882,121)	(1,039,585)
Investment income	5,807	2,750	1,680
Interest expense		(3,482)	(10,983)
Noncapital grants and contributions		973	674
Gain on disposal of capital assets	8,843	1,368	16,822
Capital grants and contributions	20,000	20,000	147,476
Transfers to Anderson County	<u>(1,024,000)</u>	<u>(1,024,000)</u>	<u>(1,032,258)</u>
Change in net position	<u>\$ (1,780,710)</u>	<u>\$ (1,884,512)</u>	<u>\$ (1,916,174)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Typically, the most significant component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between rent income and the expenses incurred in connection with the rental activity.

Operating expenses consist primarily of depreciation on capital assets; \$1,875,409, \$1,955,224, and \$1,974,912 during each of the years ended December 31, 2017, 2016, and 2015, respectively.

The Hospital has agreed to transfer the lease payments received from Saint Luke's Hospital under the Restated Lease to the County for the purpose of making principal and interest payments on the bonds as they come due. The Hospital transferred \$1,024,000, \$1,024,000, and \$1,032,258 to the County during the 2017, 2016, and 2015 fiscal years, respectively, to pay principal and interest due on bonds.



Certified Public Accountants
and Management Consultants

Heather R. Eichen, CPA
Brian J. Florea, CPA
John R. Helms, CPA
Eric L. Otting, CPA

Darrell D. Loyd, CPA
Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA
Ashley R. Davis, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Anderson County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Anderson County Hospital (the Hospital), a component unit of Anderson County, 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 our 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 opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Anderson County Hospital as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of the basic 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 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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 7, 2018

ANDERSON COUNTY HOSPITAL
STATEMENTS OF NET POSITION
December 31,

ASSETS

	2017		2016	
	Hospital	Component unit	Hospital	Component unit
CURRENT ASSETS				
Cash and cash equivalents	\$ 232,137	\$ 87,546	\$ 162,252	\$ 77,889
Prepaid expenses	2,012		2,012	
Other receivables	1,681		1,585	
Total current assets	<u>235,830</u>	<u>87,546</u>	<u>165,849</u>	<u>77,889</u>
ASSETS LIMITED AS TO USE				
Internally designated	424,337	159,911	421,485	154,349
Under indenture agreements - held by trustee	816		816	
By contributors				
For nurse training	210,124		210,105	
For capital acquisitions	21,804		20,864	
Total assets limited as to use	<u>657,081</u>	<u>159,911</u>	<u>653,270</u>	<u>154,349</u>
CAPITAL ASSETS, NET	<u>20,049,051</u>	<u>-</u>	<u>21,897,300</u>	<u>-</u>
OTHER ASSETS				
Due from lessee	385,808	-	385,808	-
Total assets	<u>\$21,327,770</u>	<u>\$ 247,457</u>	<u>\$23,102,227</u>	<u>\$ 232,238</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES				
Accounts payable	\$ 10,370	\$ -	\$ 10,992	\$ -
Unearned revenue	92,208		85,333	
Total liabilities	<u>102,578</u>	<u>-</u>	<u>96,325</u>	<u>-</u>
NET POSITION				
Invested in capital assets - net of related debt	20,049,051		21,897,300	
Restricted				
For debt service	816		816	
Expendable for capital acquisitions	21,804		20,864	
For specific operating activities	210,124		209,105	
Unrestricted	<u>943,397</u>	<u>247,457</u>	<u>877,817</u>	<u>232,238</u>
Total net position	<u>21,225,192</u>	<u>247,457</u>	<u>23,005,902</u>	<u>232,238</u>
Total liabilities and net position	<u>\$21,327,770</u>	<u>\$ 247,457</u>	<u>\$23,102,227</u>	<u>\$ 232,238</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Medical office building rent	\$ 82,500	\$ -	\$ 81,039	\$ -
Hospital rent	<u>1,024,000</u>		<u>1,024,000</u>	
Total operating revenues	<u>1,106,500</u>	<u>-</u>	<u>1,105,039</u>	<u>-</u>
Operating expenses				
Supplies and other expenses	22,451	2,878	31,936	211,667
Depreciation and amortization	<u>1,875,409</u>		<u>1,955,224</u>	
Total operating expenses	<u>1,897,860</u>	<u>2,878</u>	<u>1,987,160</u>	<u>211,667</u>
Operating loss	<u>(791,360)</u>	<u>(2,878)</u>	<u>(882,121)</u>	<u>(211,667)</u>
Nonoperating revenues (expenses)				
Investment income	5,807	7,257	2,750	5,316
Interest expense			(3,482)	
Noncapital grants and contributions		10,840	973	34,523
Gain on disposal of capital assets	<u>8,843</u>		<u>1,368</u>	
Total nonoperating revenues (expenses)	<u>14,650</u>	<u>18,097</u>	<u>1,609</u>	<u>39,839</u>
Excess of revenues over (under) expenses before capital grants and contributions	(776,710)	15,219	(880,512)	(171,828)
Capital grants and contributions	20,000		20,000	65
Transfers to Anderson County	<u>(1,024,000)</u>		<u>(1,024,000)</u>	
Change in net position	<u>(1,780,710)</u>	<u>15,219</u>	<u>(1,884,512)</u>	<u>(171,763)</u>
Net position at beginning of year	<u>23,005,902</u>	<u>232,238</u>	<u>24,890,414</u>	<u>404,001</u>
Net position at end of year	<u>\$21,225,192</u>	<u>\$ 247,457</u>	<u>\$23,005,902</u>	<u>\$ 232,238</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from lessee	\$ 1,113,375	\$ -	\$ 1,105,039	\$ -
Payments for supplies and services	<u>(23,073)</u>	<u>(2,878)</u>	<u>(31,445)</u>	<u>(11,667)</u>
Net cash provided (used) by operating activities	<u>1,090,302</u>	<u>(2,878)</u>	<u>1,073,594</u>	<u>(11,667)</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	<u>-</u>	<u>10,840</u>	<u>973</u>	<u>34,523</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(27,160)		(70,902)	
Capital grants and contributions	20,000		20,000	65
Proceeds from sale of capital assets	8,843		1,368	
Principal payments on capital lease obligations			(41,732)	
Principal payments on long-term debt			(95,000)	
Interest paid			(4,734)	
Transfers to Anderson County	<u>(1,024,000)</u>		<u>(1,024,000)</u>	
Net cash provided (used) by capital and related financing activities	<u>(1,022,317)</u>	<u>-</u>	<u>(1,215,000)</u>	<u>65</u>
Cash flows from investing activities				
Change in assets limited as to use	(4,443)	(4,101)	12,913	133,702
Investment income received	6,343	5,796	2,725	12,225
Contribution to Community Foundation				<u>(200,000)</u>
Net cash provided (used) by investing activities	<u>1,900</u>	<u>1,695</u>	<u>15,638</u>	<u>(54,073)</u>
Net change in cash and cash equivalents	69,885	9,657	(124,795)	(31,152)
Cash and cash equivalents at beginning of year	<u>162,252</u>	<u>77,889</u>	<u>287,047</u>	<u>109,041</u>
Cash and cash equivalents at end of year	<u>\$ 232,137</u>	<u>\$ 87,546</u>	<u>\$ 162,252</u>	<u>\$ 77,889</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2017		2016	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating loss to net cash provided (used) by operating activities				
Operating loss	\$ (791,360)	\$ (2,878)	\$ (882,121)	\$ (211,667)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	1,875,409		1,955,224	
Contribution to Community Foundation				200,000
Changes in				
Receivables and prepaid expenses			2	
Accounts payable	(622)		489	
Unearned revenues	<u>6,875</u>			
Net cash provided (used) by operating activities	<u>\$ 1,090,302</u>	<u>\$ (2,878)</u>	<u>\$ 1,073,594</u>	<u>\$ (11,667)</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

1. Reporting entity

Anderson County Hospital (the Hospital) is a county hospital located in Garnett, Kansas. The Hospital was organized in 1947 and is operated under Kansas statutes as an entity legally separate from Anderson County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. For financial statement purposes, the Hospital is a discretely presented component unit of the County.

On October 1, 1997, the Hospital's Board of Trustees leased to Saint Luke's Hospital of Garnett (Saint Luke's) all of the real estate, equipment, and facilities constituting the Hospital for a period of eight years and it also transferred to Saint Luke's all nonrestricted current assets and current liabilities as then recorded on the books of the Hospital. Saint Luke's may, in its sole discretion, extend the term of the lease for up to three additional terms of five years each. The first additional term began on October 1, 2005, and the second additional term began on October 1, 2010. The terms of the Lease required Saint Luke's to pay the Board of Trustees an amount equal to three percent of the net revenues it realized from the hospital operation.

On June 24, 2013, the lease was amended and restated (Restated Lease) in anticipation of the County incurring \$25,455,000 of debt to finance construction of a new hospital facility. The Restated Lease is for an initial term of ten years commencing on January 29, 2015, the date that Saint Luke's occupied the new facility. The obligations of the Hospital and Saint Luke's remained in effect as stated in the lease until then. Effective January 29, 2015, Saint Luke's makes annual lease payments to the Hospital of \$1,024,000 in monthly installments of \$85,333. The Restated Lease will automatically renew for five additional five-year periods unless Saint Luke's gives notice two years prior to the expiration of the initial or any renewal term.

Upon termination of the Restated Lease, Saint Luke's will return to the Board of Trustees all nonrestricted current assets and current liabilities as then recorded on the books of the hospital operation. A comparison will also then be made of the amount of current assets less current liabilities at the commencement and termination of the lease. If the amount of net current assets has decreased, Saint Luke's will pay an amount equal to that decrease to the Board of Trustees. If the amount of net current assets has increased, the Board of Trustees will pay an amount equal to that increase to Saint Luke's.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

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

Anderson County Hospital Foundation (the Foundation) is a not-for-profit corporation formed in January 2000 to promote and advance the welfare of the Hospital.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by a trustee under an indenture agreement; assets restricted by contributors to use for training nurses; and assets restricted by contributors for capital acquisitions. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

5. 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 generally in accordance with the 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 item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

6. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

7. Grants and contributions

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

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

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

8. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors, or others external to the Hospital, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definitions of the other two components of net position.

9. 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 the rental of the medical office building and the hospital facility, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred in connection with the rental of the medical office building and the hospital facility, other than financing costs.

10. Income taxes

The Hospital is a county hospital and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to 501(a) of the Code. Management is not aware of any uncertainties in income tax positions. The years ended December 31, 2017, 2016, 2015, and 2014, remain subject to examination for both federal and state purposes.

11. Cash and cash equivalents

Cash and cash equivalents include all cash and certificates of deposit of all funds and funds invested in the overnight pool of the State Treasurer's investment pool, excluding any such amounts included in assets limited as to use.

12. Subsequent events

The Hospital has evaluated subsequent events through April 7, 2018, which is the date the financial statements were available to be issued.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE B - 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 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 December 31, 2017, the carrying amount of the Hospital's bank deposits, including certificates of deposit, was \$779,964 and the bank balances were \$781,938. Of the bank balances, \$607,133 was covered by federal depository insurance, and \$174,805 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 122,883
Assets limited as to use	
Internally designated	424,337
Under indenture agreement - held by trustee	816
By contributors for nurse training	210,124
By contributors for capital acquisition	<u>21,804</u>
Total bank deposits	<u>\$ 779,964</u>

NOTE C - ASSETS LIMITED AS TO USE

Investments are stated at fair value. The composition of the Hospital's assets limited as to use is as follows:

	<u>2017</u>	<u>2016</u>
Internally designated		
Cash and certificates of deposit	<u>\$ 424,337</u>	<u>\$ 421,485</u>
Under indenture agreement - held by trustee		
Cash	<u>\$ 816</u>	<u>\$ 816</u>
By contributors for nurse training		
Cash and certificates of deposit	\$ 210,124	\$ 209,474
Interest receivable	<u>631</u>	<u>631</u>
	<u>\$ 210,124</u>	<u>\$ 210,105</u>
By contributors for capital acquisitions		
Cash	<u>\$ 21,804</u>	<u>\$ 20,864</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE C - ASSETS LIMITED AS TO USE - Continued

The composition of the Foundation's assets limited as to use is as follows:

	<u>2017</u>	<u>2016</u>
Internally designated		
Money market funds	\$ 6,112	\$ 7,587
Fixed income mutual funds	<u>153,799</u>	<u>146,762</u>
	<u>\$ 159,911</u>	<u>\$ 154,349</u>

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used by the Foundation for assets measured at fair value on a recurring basis:

Fixed income mutual funds of \$153,799 and \$146,762 at December 31, 2017 and 2016, respectively, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE E - CAPITAL ASSETS

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

	2017			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Land improvements	2,433,527			2,433,527
Buildings	15,976,161			15,976,161
Fixed equipment	6,827,067			6,827,067
Major movable equipment	3,112,948	8,100		3,121,048
Ambulance equipment	423,530	19,060		442,590
Totals at historical cost	<u>28,842,504</u>	<u>27,160</u>	<u>-</u>	<u>28,869,664</u>
Less accumulated depreciation and amortization				
Land improvements	401,318	206,017		607,335
Buildings	2,472,382	993,323		3,465,705
Fixed equipment	997,970	501,136		1,499,106
Major movable equipment	2,794,244	111,125		2,905,369
Ambulance equipment	279,290	63,808		343,098
	<u>6,945,204</u>	<u>1,875,409</u>	<u>-</u>	<u>8,820,613</u>
Capital assets, net	<u>\$21,897,300</u>	<u>\$(1,848,249)</u>	<u>\$ -</u>	<u>\$20,049,051</u>

	2016			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Land improvements	2,399,914	33,613		2,433,527
Buildings	15,953,637	22,524		15,976,161
Fixed equipment	6,799,024	28,043		6,827,067
Major movable equipment	3,078,288	34,660		3,112,948
Ambulance equipment	423,530			423,530
Totals at historical cost	<u>28,723,664</u>	<u>118,840</u>	<u>-</u>	<u>28,842,504</u>
Less accumulated depreciation and amortization				
Land improvements	195,820	205,498		401,318
Buildings	1,478,995	993,387		2,472,382
Fixed equipment	498,046	499,924		997,970
Major movable equipment	2,599,255	194,989		2,794,244
Ambulance equipment	217,864	61,426		279,290
	<u>4,989,980</u>	<u>1,955,224</u>	<u>-</u>	<u>6,945,204</u>
Construction in progress	23,733,684	(1,836,384)	-	21,897,300
	<u>81,057</u>	<u>(81,057)</u>		
Capital assets, net	<u>\$23,814,741</u>	<u>\$(1,917,441)</u>	<u>\$ -</u>	<u>\$21,897,300</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE E - CAPITAL ASSETS - Continued

On April 2, 2013, a majority of the qualified electors of the County approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution. On December 28, 2017, the County issued its General Obligation Refunding Bonds Series 2017-A in the amount of \$9,685,000 to refund \$8,160,000 of Series 2013-A bonds outstanding.

The Hospital has agreed to transfer the lease payments received from Saint Luke's Hospital under the Restated Lease to the County for the purpose of making principal and interest payments on the bonds as they come due. The Hospital transferred \$1,024,000 to the County during 2017 and 2016 to pay principal and interest due on the bonds.

NOTE F - DUE FROM LESSEE

Unrestricted assets and liabilities transferred to Saint Luke's on October 1, 1997, were as follows:

Cash	\$ 104,238
Patient accounts receivable	1,006,972
Estimated third-party payor settlements	121,413
Supplies	98,007
Prepaid expenses	22,642
Other receivables	2,699
Advances to physicians	56,247
Accounts payable	(656,224)
Salaries and wages payable	(76,388)
Accrued vacation pay	(93,798)
Line of credit loan	(200,000)
	<u>\$ 385,808</u>

NOTE G - LONG-TERM DEBT

On May 4, 1995, the City of Garnett, Kansas (the City), issued its Taxable Industrial Revenue Bonds, Series 1995, in the amount of \$450,000, on behalf of the Hospital pursuant to a trust indenture and a lease agreement dated April 15, 1995. The proceeds of the Bonds were used, together with other available funds of the Hospital, to acquire, construct, and equip a medical office building.

On December 15, 2006, the City issued \$645,000 in Industrial Revenue Bonds, Series 2006A and 2006B, on behalf of the Hospital. The proceeds of the 2006 bonds were used, together with other available funds of the Hospital, for the purpose of providing funds to (1) advance refund the \$297,000 of 1995 bonds outstanding at December 15, 2006, (2) pay costs related to the issuance of the 2006 bonds, and (3) pay for the costs of medical office building renovations. The advance refunding increased the total future debt service requirements of the Hospital by \$35,725. This resulted in an economic loss (the difference between the present value of the future debt service payments on the old and new debt) of \$6,412.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT - Continued

The trust indenture and the lease agreement require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

With the commencement of the lease described in Note A1, Saint Luke's became the sub-lessee of the medical office building. Rental payments from Saint Luke's are equal to the amounts required to be transferred by the Hospital to the trustee which will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

On June 24, 2013, in conjunction with the Restated Lease, the Hospital entered into an amended and restated sublease (Restated Sublease) with Saint Luke's for the medical office building effective upon Saint Luke's occupancy of the new hospital facility with the term being the same as the Restated Lease. Under the Restated Sublease, rental payments from Saint Luke's will continue to be equal to the amounts required to be transferred by the Hospital to the trustee to pay the bond principal and interest as they become due until the last payment is made on the bonds, at which time rent will be set equal to the fair market rental value of the medical office building.

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Long-term debt</u>	<u>Capital lease obligations</u>
Outstanding at January 1, 2016	\$ 95,000	\$ 41,732
Principal payments	<u>(95,000)</u>	<u>(41,732)</u>
Outstanding at December 31, 2016	<u>\$ -</u>	<u>\$ -</u>

Total interest costs are summarized as follows:

	<u>2016</u>
Total interest incurred	\$ 3,399
Amortization of deferred refunding loss	<u>83</u>
Interest expense	<u>\$ 3,482</u>

NOTE H - RISK MANAGEMENT

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.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2017 and 2016

NOTE I - ASSETS HELD BY COMMUNITY FOUNDATION

On December 29, 2016, the Foundation entered into a Fund Establishing Document (the Agreement) with Your Community Foundation in Iola, Kansas (Community Foundation) whereby a contribution of \$200,000 was made to establish the Anderson County Hospital Foundation Fund (the Fund). Under the agreement, the annual net income of the Fund will be distributed to the Foundation upon written approval from the Foundation designated officers. The Community Foundation has been granted variance power under the terms of the Agreement. In accordance with GASB 33, Accounting and Financial Reporting of Nonexchange Transactions, the transaction has been recorded as an expense for the year ended December 31, 2016. The Fund's fair market value is approximately \$236,000 at December 31, 2017.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY HOSPITAL
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2017

	Goppert State Bank		Patriots Bank	Farmers State Bank
	<u>Time deposits</u>	<u>Held in name of trustee</u>	<u>Time deposits</u>	<u>Time deposits</u>
Bank balance				
General checking	\$ 86,916	\$ -	\$ -	\$ -
General donation account	36,879			
Funds held by trustee		816		
Funded depreciation checking			44,772	
Funded depreciation certificates of deposit	75,000		326,385	
Project fund	522			
Restricted fund checking			8,648	
Restricted fund certificates of deposit			45,000	157,000
Total deposits	199,317	816	424,805	157,000
Less F.D.I.C coverage	<u>199,317</u>	<u>816</u>	<u>250,000</u>	<u>157,000</u>
Balance subject to pledging of securities			174,805	
Market value of securities pledged	<u>199,179</u>		<u>210,484</u>	
Market value of securities pledged in excess of depository requirements	<u>\$ 199,179</u>	<u>\$ -</u>	<u>\$ 35,679</u>	<u>\$ -</u>