HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hospital District No. 1,
Sumner County, Kansas
Caldwell, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit as of December 31, 2017 and 2016, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on page 30 and the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Information

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information on pages 31 through 35 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. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

George, Bauerle & Noel, P.A.

Wichita, Kansas
May 10, 2018

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hospital District No. 1, Sumner County, Kansas (Hospital District's) financial performance provides an overview of the Hospital District's financial activities for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the Hospital District's financial statements, which begin on page 7.

Financial Highlights

- The Hospital District's net position increased in 2017 by $366,245 or 53.70% compared to an increase in 2016 of $348,934 or 104.74%.

- The Hospital District reported an operating loss in both 2017 ($238,609) and 2016 ($240,095). The operating loss in 2017 decreased by $1,486 or 0.62% over the loss reported in 2016. The operating loss in 2016 decreased by $22,707 or 8.64% over 2015.

- Net nonoperating revenues/expenses increased by $15,825 or 3.04% in 2017 compared to 2016. Net nonoperating revenues/expenses increased in 2016 by $67,613 or 12.74% compared to 2015.

- The Hospital District incurred a special loss item in 2015 of $171,345 for architects fees/planning costs when a project to determine the feasibility of a major renovation/construction project was abandoned.

Financial Statements

The Hospital District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenues, expenses and change in net position*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Hospital District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Hospital District's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital District's cash receipts and cash payments during the year.

Financial Position

The information below summarizes the Hospital District's net position as of December 31, 2017, 2016 and 2015.

	2017	2016	2015
Assets:			
Current assets	$ 2,102,912	$ 2,296,758	$ 1,544,425
Capital assets, net	893,522	954,887	1,122,212
Other noncurrent assets	3,298	53,230	3,206
Total assets	2,999,732	3,304,875	2,669,843
Deferred outflows of resources	343,475	298,839	68,862
Total assets and deferred outflows of resources	$ 3,343,207	$ 3,603,714	$ 2,738,705
Liabilities:			
Long-term liabilities	$ 1,364,299	$ 1,411,107	$ 1,230,709
Other liabilities	315,703	922,604	519,199
Total liabilities	1,680,002	2,333,711	1,749,908
Deferred inflows of resources	614,896	587,939	655,667
Total liabilities and deferred inflows of resources	$ 2,294,898	$ 2,921,650	$ 2,405,575
Net position:			
Invested in capital assets, net	$ 783,076	$ 725,735	$ 792,365
Restricted	2,964	15,786	15,750
Unrestricted	262,269	(59,457)	(474,985)
Total net position	$ 1,048,309	$ 682,064	$ 333,130

Recent Financial Performance

The schedule below is a summary of the Hospital District's revenues, expenses and changes in net position for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Operating revenue	$ 4,227,239	$ 4,159,201	$ 3,878,274
Operating expenses:			
Salaries	2,002,703	1,864,565	1,716,408
Employee benefits	657,277	538,015	493,946
Supplies and other	1,617,968	1,771,420	1,713,355
Depreciation and amortization	187,900	225,296	217,367
Total operating expenses	4,465,848	4,399,296	4,141,076
Loss from operations	(238,609)	(240,095)	(262,802)
Nonoperating revenues/expenses:			
Taxes	485,121	476,819	469,425
Noncapital grants and contributions	94,793	72,036	35,021
Other, net	24,940	40,174	16,970
Total nonoperating revenues/expenses	604,854	589,029	521,416

	2017	2016	2015
Capital grants and contributions, special item:			
Capital grants and contributions	$ –	$ –	$ –
Special item	–	–	(171,345)
Total capital grants and contributions, special item	–	–	(171,345)
Increase in net position	366,245	348,934	87,269
Net position at beginning of year	682,064	333,130	1,490,992
Change in accounting principle related to pension plan	–	–	(1,245,131)
Net position at end of year	$ 1,048,309	$ 682,064	$ 333,130

The first component of the overall change in the Hospital District's net position is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital District has reported an operating loss. This is consistent with the Hospital District's operating history. The operating loss in 2017 decreased by $1,486 or 0.62% lower than the operating loss reported in 2016. The operating loss in 2016 decreased by $22,707 or 8.64% lower than the operating loss reported in 2015.

Gross patient service revenue, that is, charges to patients before reduction for contractual adjustments, charity care and the provision for bad debts, increased by $187,742 or 4.20% in 2017 and increased by $244,168 or 6.35% in 2016. The increases in 2017 and 2016 was due primarily to the implementation of swing bed intermediate care services during 2015 and 2016, which in turn increased certain ancillary revenues such as laboratory and radiology. In addition, the Hospital District brought the provision of a full-time ambulance service back into operations during the summer of 2016.

The Hospital District recognizes contractual adjustments, charity care, and the provision for bad debts against gross patient service revenue to arrive at net patient service revenue. Contractual adjustments represent the difference between patient charges and the amounts collected in accordance with government regulations concerning the calculation of healthcare payments for Medicare and Medicaid beneficiaries and for adjustments for various contractual agreements with commercial insurance carriers. The contractual adjustments decreased net patient service revenue by $266,739 in 2017 and by $131,946 in 2016.

Operating expenses increased by 1.51% from 2016 to 2017 and increased by 6.24% from 2015 to 2016. The increase in operating expenses in 2017 and 2016 were due primarily to the implementation of the intermediate care services and the operation of a full-time ambulance service mentioned earlier.

Net nonoperating revenues consist primarily of property taxes levied by the Hospital District, investment earnings, grants, contributions, net of interest expense on long-term debt. In 2017 and 2016, net nonoperating revenues/expenses increased in part by receipt of significant contributions from an estate.

In 2015 the Hospital District incurred a special loss item $171,345 for costs associated with a project to determine the feasibility of undertaking a major renovation/construction project. During 2015 the Board of Trustees determined that the project was not feasible and the project was abandoned.

Capital Assets

At the end of 2017, the Hospital District had $783,076 invested in capital assets, net of accumulated depreciation and debt outstanding for the acquisition of capital assets, as detailed in Notes 5 and 6 to the financial statements. The Hospital District acquired new capital assets of approximately $127,000 and $58,000 in 2017 and 2016, respectively. The increase in 2017 was primarily due to the acquisition and renovation of an off campus building to house the ambulance services and the acquisition of a used ambulance.

Debt

The Hospital leases certain property and equipment under capital lease agreements including a new lease in 2016 of $45,535 to finance the acquisition of surgical equipment.

Other Economic Factors

The assessed valuation for the Hospital District for 2017 (2018 fiscal year) is $24,188,426 which is an increase of $1,474,529 or 6.49% from the assessed valuation for 2016 (2017 fiscal year) of $22,713,897. The total ad valorem taxes levied for the 2018 fiscal year was $498,196 compared to $457,155 for 2017.

Issues Facing the Hospital District

There are issues facing the Hospital District that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital District's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.

- Employment and labor issues. The Hospital District is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. Acquisition and retention of qualified personnel is a priority, due to the relative shortage of nursing and other medical professional/technical employees within the state.

- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital District in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.

- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital District are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital District.

Contacting The Hospital District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital District's finances and to show the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital District Administration Department, at Sumner County Hospital District No. 1, 601 S. Osage, Caldwell, Kansas, 67022.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

ASSETS

	Primary Government		Component Unit	
	2017	2016	2017	2016
Current assets:				
Cash and cash equivalents (Notes 1 and 3)	$ 848,131	$ 1,154,254	$ 228,930	$ 216,341
Cash – Restricted	2,964	15,786	–	–
Accounts receivable, net of allowance for doubtful accounts of $250,000 in 2017 and $230,000 in 2016 (Notes 1 and 8)	493,396	473,037	–	–
Uncollected current property taxes receivable (Note 1)	488,890	452,525	–	–
Inventories (Note 1)	171,003	187,412	–	–
Estimated third-party payor settlements (Note 2)	81,763	–	–	–
Prepaid expenses and other	16,765	13,744	–	–
Total current assets	2,102,912	2,296,758	228,930	216,341
Noncurrent cash and investments:				
Board designated assets (Note 3)	3,298	53,230	–	–
Other investments (Note 3)	–	–	53,556	48,169
Total noncurrent cash and investments	3,298	53,230	53,556	48,169
Property and equipment, at cost (Notes 1, 5 and 6):				
Land	5,085	5,085	5,000	5,000
Land improvements	60,500	60,500	3,405	3,405
Building	1,352,757	1,279,472	234,064	234,064
Fixed equipment	871,468	871,468	–	–
Movable equipment	3,055,672	3,002,422	–	–
Total property and equipment	5,345,482	5,218,947	242,469	242,469
Less accumulated depreciation	4,451,960	4,264,060	126,853	110,746
Net property and equipment	893,522	954,887	115,616	131,723
Total noncurrent assets	896,820	1,008,117	169,172	179,892
Total assets	2,999,732	3,304,875	398,102	396,233
Deferred outflows of resources – Pension (Note 1 and 7)	343,475	298,839	–	–
Total assets and deferred outflows of resources	$ 3,343,207	$ 3,603,714	$ 398,102	$ 396,233

LIABILITIES AND NET POSITION

	Primary Government		Component Unit	
	2017	2016	2017	2016
Current liabilities:				
Accounts payable	$ 72,403	$ 65,826	$ –	$ –
Salaries and wages payable	43,869	35,943	–	–
Payroll taxes payable	25,400	26,593	–	–
Estimated third-party payor settlements (Note 2)	–	611,835	–	–
Current portion of compensated absences payable (Notes 1 and 5)	78,585	63,083	–	–
Current portion of long-term debt (Note 5)	95,446	119,324	–	–
Total current liabilities	315,703	922,604	–	–
Non-current liabilities:				
Long-term debt (Note 5)	15,000	109,828	–	–
Compensated absences payable (Notes 1 and 5)	24,817	19,921	–	–
Net pension liability (Note 1 and 7)	1,324,482	1,281,358	–	–
Total non-current liabilities	1,364,299	1,411,107	–	–
Total liabilities	1,680,002	2,333,711	–	–
Deferred inflows of resources:				
Deferred property taxes receivable (Note 1)	488,890	452,525	–	–
Pension plan (Note 1 and 7)	126,006	135,414	–	–
Total deferred inflows of resources	614,896	587,939	–	–
Net position (Notes 1 and 4):				
Net investment in capital assets	783,076	725,735	115,616	131,723
Restricted – expendable for specific operating activities	2,964	15,786	–	–
Unrestricted	262,269	(59,457)	282,486	264,510
Total net position	1,048,309	682,064	398,102	396,233
Total liabilities, deferred inflows of resource and net position	$ 3,343,207	$ 3,603,714	$ 398,102	$ 396,233

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Primary Government		Component Unit	
	2017	2016	2017	2016
Operating revenues:				
Net patient service revenue	$4,156,239	$4,088,201	$ –	$ –
Ambulance subsidy	71,000	71,000	–	–
Grants and contributions	–	–	1,518	1,300
Rent income	–	–	15,600	15,600
Total operating revenues	4,227,239	4,159,201	17,118	16,900
Operating expenses:				
Salaries	2,002,703	1,864,565	–	–
Employee benefits	657,277	538,015	–	–
Supplies and other	1,617,968	1,771,420	5,595	6,219
Depreciation and amortization	187,900	225,296	16,107	14,093
Total operating expenses	4,465,848	4,399,296	21,702	20,312
Operating income (loss)	(238,609)	(240,095)	(4,584)	(3,412)
Non-operating revenues (expenses):				
Tax revenues	485,121	476,819	–	–
Investment return	2,051	1,699	6,453	2,952
Interest expense	(12,628)	(21,879)	–	–
Noncapital grants and contributions	94,793	72,036	–	–
Other	35,517	60,354	–	900
Total non-operating revenues (expenses)	604,854	589,029	6,453	3,852
Increase in net position	366,245	348,934	1,869	440
Net position at beginning of year	682,064	333,130	396,233	395,793
Net position at end of year	$1,048,309	$ 682,064	$ 398,102	$ 396,233

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMER 31, 2017 AND 2016

	Primary Government		Component Unit	
	2017	2016	2017	2016
Cash flows from operating activities:				
Receipts from and on behalf of patients	$ 3,442,282	$ 4,538,271	$ –	$ –
Payments to suppliers and contractors	(1,599,938)	(1,891,175)	(5,595)	(7,519)
Payments to/on behalf of employees	(2,631,656)	(2,439,473)	–	–
Other receipts and payments, net	71,000	71,000	17,118	17,800
Net cash flows provided (used) by operating activities	(718,312)	278,623	11,523	10,281
Cash flows from noncapital financing activities:				
Property taxes	485,121	476,819	–	–
Net change in pension obligations	(10,178)	(37,183)	–	–
Noncapital grants and contributions	94,793	72,036	–	–
Other	35,517	60,354	–	–
Net cash flows provided by noncapital financing activities	605,253	572,026	–	–
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(118,706)	(146,230)	–	–
Interest paid on long-term debt	(12,628)	(21,879)	–	–
Purchases of capital assets	(126,535)	(12,436)	–	(76,231)
Net cash flows used by capital and related financing activities	(257,869)	(180,545)	–	(76,231)
Cash flows from investing activities:				
Changes in board-designated assets, net	49,932	(50,024)	–	–
Investment income	2,051	1,699	1,066	(126)
Net cash flows provided by investing activities	51,983	(48,325)	1,066	(126)
Net increase (decrease) in cash and cash equivalents	(318,945)	621,779	12,589	(66,076)
Cash and cash equivalents at beginning of year	1,170,040	548,261	216,341	282,417
Cash and cash equivalents at end of year	$ 851,095	$ 1,170,040	$ 228,930	$ 216,341

	Primary Government		Component Unit	
	2017	2016	2017	2016
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating income (loss)	$ (238,609)	$ (240,095)	$ (4,584)	$ (2,512)
Adjustments to reconcile operating loss to net cash flows used in operating activities:				
Depreciation and amortization	187,900	225,296	16,107	14,093
Provision for doubtful accounts	230,239	247,578	–	–
Net (increases) decreases in current assets:				
Accounts receivable	(250,598)	(334,084)	–	–
Property taxes receivable	(36,365)	(9,305)	–	–
Inventories	16,409	(31,275)	–	–
Estimated third-party payor settlements	(81,763)	–	–	–
Other current assets	(3,021)	(3,468)	–	–
Net increases (decreases) in current liabilities:				
Accounts payable	5,835	(103,660)	–	(1,300)
Compensated absences payable	20,398	9,282	–	–
Salaries and wages payable	7,926	(46,175)	–	–
Payroll taxes payable	(1,193)	18,648	–	–
Estimated third-party payor settlements	(611,835)	536,576	–	–
Deferred inflows of resources-uncollected current property taxes	36,365	9,305	–	–
Net cash provided (used) by operating activities	$ (718,312)	$ 278,623	$ 11,523	$ 10,281

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Hospital District's financial statements. The financial statements and notes are representations of the Hospital District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization and business activity

The hospital is owned by Hospital District No. 1, Sumner County, Kansas (Hospital District) and is governed by an elected Board of Trustees. The hospital provides acute care, outpatient, swing-bed and home health services.

Discretely presented component unit

The component unit columns in the financial statements consist of the financial data of the Hospital District's component unit, the Caldwell Area Hospital and Health Foundation (Foundation), a tax-exempt nonprofit organization. It is reported in separate columns to emphasize that it is legally separate from the Hospital District. The Foundation is considered a component unit of the Hospital District since the purpose of the Foundation is primarily to secure and expend financial aid for the operations, maintenance, and expansion of the health care facilities and services of the Hospital District.

Accounting standards

The Hospital District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 those estimates.

Allowance for doubtful accounts

Accounts receivable (Note 8) is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include short-term certificates of deposit, money market, and interest bearing checking accounts, excluding those investments designated by the Board of Trustees for the purchase or replacement of capital assets, with maturities of three months or less (Note 3).

Budgetary principles

The Hospital District is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operations and maintenance and employee benefits funds on or before August 25 of the preceding year. The Hospital District's Board of Trustees may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital Board of Trustees.

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	Operation and Maintenance Fund	Employee Benefits Fund
GAAP basis net position at December 31, 2017	$ 1,048,309	$ –
Adjustments:		
Net property and equipment	(893,522)	–
Net long-term debt	110,445	–
Net pension liability and deferred inflows/outflows	1,107,013	
Encumbrances at December 31, 2017	–	–
Budgetary basis fund balance at December 31, 2017	$ 1,372,245	$ –

Property taxes receivable

In accordance with governing statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred inflows of resources on the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

Capital assets

The Hospital District's capital assets that are $5,000 or greater, are recorded at cost at the date of acquisition. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 years
Buildings and fixed equipment	10-40 years
Movable equipment	5-20 years

Maintenance and repairs are charged to expense and renewals and expenditures for improvements are capitalized.

Net patient service revenue

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

Charity care

The Hospital District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy based on current poverty level guidelines. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital had qualifying charity care of $2,134 and $-0- for the years ended December 31, 2017 and 2016, respectively, estimated by multiplying the Hospital District's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

Grants and contributions

From time to time, the Hospital District receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net position

Net position of the Hospital District is classified into three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable for specific operating activities* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Unrestricted net position* are remaining assets less remaining liabilities that do not meet the definition of *net investment in capital assets* or *restricted.*

Revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Risk management

The Hospital District 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 District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three preceding years. The Hospital District also purchases professional liability insurance to cover medical malpractice claims. Management is not aware of any asserted or unasserted claims or incidents arising from services provided to patients.

Compensated absences

All full-time and part-time employees receive up to 31 days paid time off per year depending upon length of service. Upon resignation or retirement from service with the Hospital District, employees are entitled to payment for all accrued paid time off, up to the allowable maximum. The Hospital District fund accrues compensated absence benefits as earned.

Taxation

The Hospital District is a political subdivision of the State of Kansas and is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

The Foundation has received a ruling from the Internal Revenue Service exempting it from federal income tax in accordance with Section 501(c)(3) of the Internal Revenue Code. The federal exemption from income tax is also recognized by state authorities.

Deferred inflows of resources/Deferred outflows of resources

In addition to assets, the balance sheets report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and is not recognized as an outflow of resources (expense/expenditure) until the future period. The Hospital District reports amounts related to pensions on the of net position as a deferred outflow of resources.

In addition to liabilities, the balance sheets report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Hospital District reports amounts related to pensions and property taxes receivable on the balance sheets as deferred inflows of resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Subsequent events have been evaluated through May 10, 2018 which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

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

- **Medicare** – The Hospital District is recognized as a Critical Access Hospital (CAH) under the Medicare program. As such, inpatient acute care, skilled swing-bed and certain outpatient services rendered to program beneficiaries are paid at 101% of allowable cost subject to certain limitations. Certain other outpatient services are paid based on fee schedules. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicare administrative contractor. The Hospital District's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2015. Beginning in 2013, a mandatory payment reduction, known as sequestration, of 2% of program cost went into effect. Under current legislation, sequestration is scheduled to last until 2023.

- **Medicaid** – Inpatient and outpatient services rendered to program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage that is based on previously filed cost reports.

Approximately 59% and 59% of net patient service revenue is from participation in the Medicare program for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation and change, As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and other third-party payor programs. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. CASH AND INVESTMENTS

The Hospital District's cash and investments consisted of the following:

	Primary Government		Component Unit	
	2017	2016	2017	2016
Cash and cash equivalents:				
Cash on hand	$ 300	$ 300	$ –	$ –
Checking accounts	322,863	336,648	–	–
Money market accounts	476,559	781,975	228,930	216,341
Certificates of deposit	51,373	51,117	–	–
	$ 851,095	$ 1,170,040	$ 228,930	$ 216,341

3. CASH AND INVESTMENTS (continued)

	Primary Government		Component Unit	
	2017	2016	2017	2016
Board designated assets:				
Money market account	$ 3,298	$ 53,230	$ –	$ –
	$ 854,393	$ 1,223,270	$ –	$ –
Other investments:				
Wichita Community Foundation	$ –	$ –	$ 53,556	$ 48,169

The board-designated assets have been designated by the Board of Trustees to be used for the replacement of capital assets or for the acquisition of additional assets. These assets can be utilized for other purposes at the discretion of the Board of Trustees.

The Foundation's investment with the Wichita Community Foundation, a non-profit organization, are kept in a trust fund. The trust places these funds in various cash and stock items and the withdrawal of principal and investment earnings are subject to the approval of the Wichita Community Foundation's Board of Directors.

Investment return consisted of the following:

	Primary Government		Component Unit	
	2017	2016	2017	2016
Interest and dividends	$ 2,051	$ 1,699	$ 2,155	$ 1,808
Net realized and unrealized gains/(losses)	–	–	4,298	1,144
	$ 2,051	$ 1,699	$ 6,453	$ 2,952

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital District's deposits may not be returned or the Hospital District will not be able to recover collateral securities in the possession of an outside party. The Hospital District's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statures define the allowable pledged securities.

At December 31, 2017, the carrying amount of the Hospital District's deposits, which approximates their fair value, was $854,093 with the bank balances of such accounts being $914,519. Of the bank balances, $554,671 was secured by federal depository insurance. The Hospital District's custodial banks had also pledged securities with a fair value of $863,165 at December 31, 2017.

The remaining carrying amount of the Hospital District's cash and investments at December 31, 2017 consisted of cash on hand of $300.

At December 31, 2017, the carrying amount of the Hospital District's component unit's deposits was $228,930 with the bank balances of such accounts being $228,930, all of which was secured by federal depository insurance.

3. CASH AND INVESTMENTS (continued)

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital's investing activities are managed under the custody of the Hospital Chief Executive Officer and Board of Trustees. The Hospital District's component unit's investing activities are under the custody of the component unit's Board of Trustees. Investing is performed in accordance with investment policies adopted by the respective Boards of Trustees and in compliance with State statutes.

Applicable state statutes authorize the Hospital District to invest in (1) temporary notes or no-fund warrants issued by the Hospital District (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Hospital District's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

4. RESTRICTED NET ASSETS

Restricted, expendable net position consists of cash and cash equivalents and are available for the following purposes:

	December 31,	
	2017	2016
Sidewalk fund	$ –	$ 1,658
Ambulance fund	–	11,171
Nursing scholarships	2,964	2,957
	$ 2,964	$ 15,786

Net position released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors was $12,845 and $–0– for the years ended December 31, 2017 and 2016, respectively.

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended December 31, 2017 and 2016:

	Balance At December 31, 2016	Additions	Reductions	Balance At December 31, 2017	Amounts Due Within One Year
Long-term debt:					
Capital lease obligations	$ 229,152	$ –	$ 118,706	$ 110,446	$ 95,446
Other liabilities:					
Compensated absences payable	83,004	145,464	125,066	103,402	78,585
Total noncurrent liabilities	$ 312,156	$ 145,464	$ 243,772	$ 213,848	$ 174,031

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

	Balance At December 31, 2015	Additions	Reductions	Balance At December 31, 2016	Amounts Due Within One Year
Long-term debt:					
Capital lease obligations	$ 329,847	$ 45,535	$ 146,230	$ 229,152	$ 119,324
Other liabilities:					
Compensated absences payable	73,722	125,285	116,003	83,004	63,083
Total noncurrent liabilities	$ 403,569	$ 170,820	$ 262,233	$ 312,156	$ 182,407

Capitalized lease obligations

The Hospital leases certain assets under capital lease agreements including new leases of $–0– and $45,535 in 2017 and 2016, respectively. Interest expensed under the capital lease agreements was $12,628 and $21,879 for the years ended December 31, 2017 and 2016, respectively. The following is an analysis of the financial presentation of the capital leases:

	December 31,	
	2017	2016
Buildings	$ 350,000	$ 350,000
Movable equipment	161,612	295,222
Less accumulated depreciation	(172,896)	(244,326)
	$ 338,716	$ 400,896

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2017:

Year ending December 31,:	
2018	$ 100,027
2019	15,340
Gross minimum lease payments	115,367
Less amount representing interest	4,921
Present value of net minimum lease payments	110,446
Less current portion	95,446
Long term portion	$ 15,000

6. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2017 and 2016 were as follows:

	Balance At December 31, 2016	Additions and Transfers In	Disposals and Transfers Out	Balance At December 31, 2017
Hospital				
Capital assets not being depreciated:				
Land	$ 5,085	$ –	$ –	$ 5,085
Construction in progress	–	–	–	–
Total capital assets not being depreciated	5,085	–	–	5,085
Capital assets being depreciated:				
Land improvements	60,500	–	–	60,500
Buildings	1,279,472	73,285	–	1,352,757
Fixed equipment	871,468	–	–	871,468
Movable equipment	3,002,422	53,250	–	3,055,672
Total capital assets being depreciated	5,213,862	126,535	–	5,340,397
Less accumulated depreciation for:				
Land improvements	49,465	3,598	–	53,063
Buildings	931,764	43,226	–	974,990
Fixed equipment	548,088	34,410	–	582,498
Movable equipment	2,734,743	106,666	–	2,841,409
Total accumulated depreciation	4,264,060	187,900	–	4,451,960
Total capital assets being depreciated, net	949,802	(61,365)	–	888,437
Total capital assets, net	$ 954,887	$ (61,365)	$ –	$ 893,522

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2015	Additions and Transfers In	Disposals and Transfers Out	Balance At December 31, 2016
Hospital				
Capital assets not being depreciated:				
Land	$ 5,085	$ –	$ –	$ 5,085
Construction in progress	–	–	–	–
Total capital assets not being depreciated	5,085	–	–	5,085
Capital assets being depreciated:				
Land improvements	60,500	–	–	60,500
Buildings	1,279,472	–	–	1,279,472
Fixed equipment	866,282	5,186	–	871,468
Movable equipment	2,949,637	52,785	–	3,002,422
Total capital assets being depreciated	5,155,891	57,971	–	5,213,862
Less accumulated depreciation for:				
Land improvements	45,857	3,608	–	49,465
Buildings	891,300	40,464	–	931,764
Fixed equipment	513,311	34,777	–	548,088
Movable equipment	2,588,296	146,447	–	2,734,743
Total accumulated depreciation	4,038,764	225,296	–	4,264,060
Total capital assets being depreciated, net	1,117,127	(167,325)	–	949,802
Total capital assets, net	$ 1,122,212	$ (167,325)	$ –	$ 954,887

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2016	Additions	Disposals	Balance At December 31, 2017
Component unit				
Capital assets not being depreciated:				
Land	$ 5,000	$ –	$ –	$ 5,000
Construction in progress	–	–	–	–
Total capital assets not being depreciated	5,000	–	–	5,000
Capital assets being depreciated:				
Land improvements	3,405	–	–	3,405
Buildings	234,064	–	–	234,064
Total capital assets being depreciated	237,469	–	–	237,469
Less accumulated depreciation for:				
Land improvements	2,787	227	–	3,014
Buildings	107,959	15,880	–	123,839
Total accumulated depreciation	110,746	16,107	–	126,853
Total capital assets being depreciated, net	126,723	(16,107)	–	110,616
Total capital assets, net	$ 131,723	$ (16,107)	$ –	$ 115,616

	Balance At December 31, 2015	Additions	Disposals	Balance At December 31, 2016
Component unit				
Capital assets not being depreciated:				
Land	$ 5,000	$ –	$ –	$ 5,000
Construction in progress	–	–	–	–
Total capital assets not being depreciated	5,000	–	–	5,000

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2015	Additions	Disposals	Balance At December 31, 2016
Capital assets being depreciated:				
Land improvements	$ 3,405	$ –	$ –	$ 3,405
Buildings	157,833	76,231	–	234,064
Total capital assets being depreciated	161,238	76,231	–	237,469
Less accumulated depreciation for:				
Land improvements	2,560	227	–	2,787
Buildings	94,093	13,866	–	107,959
Total accumulated depreciation	96,653	14,093	–	110,746
Total capital assets being depreciated, net	64,585	62,138	–	126,723
Total capital assets, net	$ 69,585	$ 62,138	$ –	$ 131,723

7. PENSION PLAN

Plan description

The Hospital District participates in the Kansas Public Employees Retirement System, a cost sharing multiple employer defined benefit pension plan covering substantially all employees. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74-4901 *et. seq.*:

Public employees, which includes:

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

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions such as the Hospital District is optional, but irrevocable once elected.

KPERS makes separate calculations for pension-related amounts for the four groups noted above, with the Hospital District participating in the local government employees group.

7. PENSION PLAN (continued)

The KPERS plan is a cost-sharing, multiemployer, defined benefit plan. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or by accessing the internet at the KPERS website at *www.kpers.org*.

Benefits provided

KPERS provides retirement, life insurance, disability income, and death benefits. Kansas law establishes and amends benefit provisions. Normal retirement is at age 65, 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit.

Monthly retirement benefits are based on statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting hew hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015 and thereafter, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after January 2, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas State law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member employee contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employees. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the fiscal year ended December 31, 2017.

7. PENSION PLAN (continued)

The Hospital District's contractually required contribution rates are as follows:

Period	Percent
January 1, 2016 to December 31, 2016	9.18%
January 1, 2017 to December 31, 2017	8.46

The employer contribution rate is actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital District's contributions to KPERS for pensions for the years ended December 31, 2017 and 2016, were $240,982 and $231,099, respectively.

Employer Allocations

Although KPERS administers one cost sharing multiple employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense are determined separately for each of the following groups of the plan:

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

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital District is included in the local group. The allocation percentages presented for each group are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group. The Hospital District's share of the collective pension amounts as of December 31, 2017 and 2016, are based on the proportion of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2017 and 2016, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At December 31, 2017, the District's proportion of KPERS was 0.091441%, which is an increase of 0.008614% from its proportion measured at December 31, 2016.

Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources

At December 31, 2017 and 2016, the Hospital District reported a liability of $1,324,482 and $1,281,358, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015, respectively, rolled forward to June 30, 2017 and 2016, respectively. The Hospital District's proportion of the collective net pension liability was based on the ratio of the Hospital District's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods.

For the years ended December 31, 2017 and 2016, the Hospital District recognized pension expense of $135,388 and $98,397, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period. At December 31, 2017 and 2016 the Hospital District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

7. PENSION PLAN (continued)

	December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital District contributions subsequent to the measurement date	$ 75,321	$ –
Differences between expected and actual experience	6,406	45,798
Net difference between projected and actual earnings on pension plan investments	41,547	–
Changes of assumptions	71,329	9,685
Changes in proportion	148,872	70,523
Total	$ 343,475	$ 126,006

	December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital District contributions subsequent to the measurement date	$ 75,068	$ –
Differences between expected and actual experience	7,437	23,127
Net difference between projected and actual earnings on pension plan investments	151,367	–
Changes of assumptions	–	11,986
Changes in proportion	64,967	100,301
Total	$ 298,839	$ 135,414

At December 31, 2017, the Hospital District reported $75,321 as deferred outflows of resources related to pensions resulting from Hospital District's contributions subsequent to the measurement date of June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	Amount
2018	$ 3,633
2019	57,387
2020	52,667
2021	15,080
2022	13,381

Actuarial assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, which were then rolled forward to June 30, 2017 and 2016, using the following actuarial assumptions:

	2016	2015
Price inflation	2.75%	3.00%
Wage inflation	3.50%	4.00%
Salary increases, including wage increases and inflation	3.50 to 12.00%	4.00 to 16.00%
Investment rate of return, compounded annually, net of investment expense, and including inflation	7.75%	8.00%

7. PENSION PLAN (continued)

For 2017, mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

For 2016, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation, were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2015. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the actuarial experience study conducted for the three-year period ending on December 31, 2012.

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

	December 31, 2017	
Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.00%	6.85%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	2.00	(0.25)
Total	100.00%	

	December 31, 2016	
Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	2.00	(0.25)
Total	100.00%	

7. PENSION PLAN (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.75% and 8.00% for the years ended December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for these groups may not increase by more than the statutory cap (1.2% for 2017). The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the Hospital District's share of the net pension liability of the Pension Plan calculated using the discount rate of 7.75% and 8.00% for 2017 and 2016, respectively, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75)
Hospital District's proportionate share of the net pension liability (2017)	$ 1,907,544	$ 1,324,482	$ 832,984

	1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
Hospital District's proportionate share of the net pension liability (2016)	$ 1,756,309	$ 1,281,358	$ 878,637

Pension plan fiduciary net position

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

8. CONCENTRATIONS 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 receivables from patients and third-party payors was as follows:

	December 31, 2017	December 31, 2016
Medicare	$ 187,783	$ 306,877
Medicaid	128,324	30,777
Commercial	306,151	242,595
Other	121,138	122,788
Gross accounts receivable	743,396	703,037
Less allowance for doubtful accounts	250,000	230,000
	$ 493,396	$ 473,037

9. BUILDING LEASE AGREEMENT

The component unit has entered into an agreement with a not-for-profit organization to provide space for a local physician's office. The lease term is for five years with an option to renew for an additional five year term. The annual rent is $15,600 commencing with the second year of the lease and is payable in installments of $1,300 per month.

10. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital District is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital District would be subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. Management believes that the effect on the financial statements is not significant. The Hospital District provides no other post-employment benefits, other than a retirement plan, for former employees.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital District makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage.

REQUIRED SUPPLEMENTARY INFORMATION

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

Schedule of the Hospital District's Proportionate Share of the Net Pension Liability – Kansas Public Employees Retirement System Plan
Last Ten Years*

	2017	2016	2015
Hospital District's proportion percentage of the net pension liability	0.091441%	0.082827%	0.077245%
Hospital District's proportionate share of the net pension liability	$ 1,324,482	$ 1,281,358	$ 1,014,261
Hospital District's covered employee payroll	$ 1,676,364	$ 1,563,797	$ 1,362,911
Hospital District's proportionate share of the net pension liability as a percentage of its covered employee payroll	79.01%	81.94%	74.42%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%

Schedule of Hospital District's Contributions
Last Ten Years*

	2017	2016	2015
Contractually required contribution	141,820	$ 139,758	$ 129,909
Contribution in relation to the contractually required contribution	141,820	139,758	129,909
Contribution deficiency (excess)	$ –	$ –	$ –
Hospital District's covered payroll	$ 1,676,364	$1,563,797	$ 1,362,911
Contributions as a percentage of covered employee payroll	8.46%	8.94%	9.53%

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

ADDITIONAL INFORMATION

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

OPERATION AND MAINTENANCE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS

Year ended December 31, 2017

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	$ 4,189,233	$ 4,189,233	$ 4,156,239	$ (32,994)
Taxes	370,327	370,327	366,951	(3,376)
Other	126,214	126,214	203,361	77,147
Total revenues	4,685,774	4,685,774	4,726,551	40,777
Expenditures:				
Salaries	1,854,202	1,854,202	2,002,703	(148,501)
Employee benefits	528,609	528,609	403,719	124,890
Supplies and contractual services	2,003,531	2,003,531	1,776,904	226,627
Capital outlay	616,810	616,810	245,242	371,568
Transfers to Employee Benefits Fund	50,000	50,000	–	50,000
Total expenditures	5,053,152	5,053,152	4,428,568	624,584
Excess of revenue over expenditures (expenditures over revenue)	(367,378)	(367,378)	297,983	665,361
Fund balance, beginning of year	592,092	592,092	1,074,262	482,270
Fund balance, end of year	$ 224,714	$ 224,714	$ 1,372,245	$ 1,147,631

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

EMPLOYEE BENEFITS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS

Year ended December 31, 2017

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	$ 119,724	$ 119,724	$ 118,170	$ (1,554)
Transfers from operations and maintenance fund	50,000	50,000	–	(50,000)
Total revenues	169,724	169,724	118,170	(51,554)
Expenditures – Employee benefits	169,724	169,724	118,170	51,554
Excess of revenue over expenditures (expenditures over revenue)	–	–	–	–
Fund balance, beginning of year	–	–	–	–
Fund balance, end of year	$ –	$ –	$ –	$ –

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2017			2016		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nursing service	$ 909,967	$ 37,621	$ 947,588	$ 1,005,136	$ 46,841	$ 1,051,977
Operating room	–	116,792	116,792	3,127	150,999	154,126
Anesthesiology	–	79,874	79,874	–	110,057	110,057
Radiology	47,661	421,673	469,334	55,691	362,622	418,313
CAT scan	32,903	355,074	387,977	41,886	305,884	347,770
MRI	4,470	129,632	134,102	2,759	144,327	147,086
Laboratory	91,713	773,156	864,869	107,425	614,818	722,243
Physical therapy	57,992	118,552	176,544	87,686	113,193	200,879
Electrocardiology	4,546	50,161	54,707	5,225	36,257	41,482
Medical supplies	29,640	31,320	60,960	37,479	37,573	75,052
Pharmacy	143,626	413,787	557,413	217,777	426,484	644,261
Emergency room	2,471	601,582	604,053	513	494,093	494,606
Ambulance	–	201,254	201,254	–	59,873	59,873
	$ 1,324,989	$ 3,330,478	4,655,467	$ 1,564,704	$ 2,903,021	4,467,725
Contractual adjustments			(266,739)			(131,946)
Charity care			(2,250)			–
Bad debts			(230,239)			(247,578)
			$ 4,156,239			$ 4,088,201

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

	Year ended December 31, 2017				
	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Nursing service	$ 663,901	$ 39,091	$ 42,946	$ 745,938	16.70 %
Ancillary services:					
Operating room	–	41,998	17,447	59,445	1.33
Anesthesiology	–	25,260	–	25,260	0.57
Radiology	113,141	53,655	15,888	182,684	4.09
CAT scan	7,095	107,177	179	114,451	2.56
MRI	2,390	30,150	267	32,807	0.73
Laboratory	167,179	222,603	9,199	398,981	8.93
Physical therapy	75,743	1,072	798	77,613	1.74
Electrocardiology	356	4,089	–	4,445	0.10
Medical supplies	9,166	64,471	–	73,637	1.65
Pharmacy	7,148	173,647	–	180,795	4.05
Emergency room	341,554	15,558	–	357,112	8.00
Ambulance	82,602	14,812	4,511	101,925	2.28
	806,374	754,492	48,289	1,609,155	36.03
General services:					
Nursing administration	76,335	–	–	76,335	1.71
Dietary	102,642	52,338	8,137	163,117	3.65
Operation of plant	24,809	153,525	–	178,334	3.99
Housekeeping	27,020	8,279	1,207	36,506	0.82
Laundry	7,047	7,152	–	14,199	0.32
Medical records	27,999	15,765	–	43,764	0.98
Administration	266,576	587,326	6,087	859,989	19.26
Employee benefits	–	657,277	–	657,277	14.72
Depreciation - building and fixed equipment	–	–	81,234	81,234	1.82
	532,428	1,481,662	96,665	2,110,755	47.27
	$ 2,002,703	$ 2,275,245	$ 187,900	$ 4,465,848	100.00 %

	Year ended December 31, 2016				
	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Nursing service	$ 665,258	$ 36,170	$ 70,359	$ 771,787	17.57 %
Ancillary services:					
Operating room	–	37,110	11,492	48,602	1.10
Anesthesiology	–	39,840	–	39,840	0.91
Radiology	112,878	46,369	16,581	175,828	4.00
CAT scan	5,604	106,691	179	112,474	2.56
MRI	2,463	36,850	268	39,581	0.90
Laboratory	164,331	196,891	30,084	391,306	8.89
Physical therapy	76,311	1,610	800	78,721	1.79
Electrocardiology	413	2,592	–	3,005	0.07
Medical supplies	11,450	46,328	–	57,778	1.31
Pharmacy	6,524	234,748	–	241,272	5.48
Emergency room	294,930	17,626	–	312,556	7.10
Ambulance	31,582	84,032	240	115,854	2.63
	706,486	850,687	59,644	1,616,817	36.74
General services:					
Nursing administration	60,656	–	–	60,656	1.38
Dietary	98,003	54,151	8,159	160,313	3.64
Operation of plant	17,476	150,693	–	168,169	3.82
Housekeeping	28,586	6,848	1,210	36,644	0.83
Laundry	6,443	3,432	–	9,875	0.22
Medical records	28,290	15,003	–	43,293	0.98
Administration	253,367	654,436	7,075	914,878	20.80
Employee benefits	–	538,015	–	538,015	12.23
Depreciation - building and fixed equipment	–	–	78,849	78,849	1.79
	492,821	1,422,578	95,293	2,010,692	45.69
	$ 1,864,565	$ 2,309,435	$ 225,296	$ 4,399,296	100.00 %