



Financial Statements
April 30, 2018 and 2017

Geary Community Hospital
A Component Unit of Geary County, Kansas

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April 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Geary Community Hospital
Junction City, Kansas

Report on Financial Statements

We have audited the accompanying financial statements of Geary Community Hospital (Hospital), a component unit of Geary County, Kansas as of and for the years ended April 30, 2018 and 2017, and its discretely presented component unit, Geary Community Healthcare Foundation, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Geary Community Healthcare Foundation (Foundation), which represent 10 percent, 19 percent, and 6 percent, respectively, of the assets, net position, and revenues of the Hospital as of and for the year ended April 30, 2018 and 9 percent, 16 percent, and 3 percent, respectively, of the assets, net position, and revenues of the Hospital as of and for the year ended April 30, 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. 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 Hospital'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.

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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, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Geary Community Hospital as of April 30, 2018 and 2017, and the changes in its financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Correction of Error

As discussed in Note 13 to the financial statements, certain errors resulting in an understatement of the amounts previously reported for accrued liabilities and operating expenses as of April 30, 2017, were discovered during the current year. Accordingly, amounts reported for accrued liabilities and benefit expense have been restated in the 2017 financial statements now presented, and an adjustment has been made to net position as of April 30, 2017, to correct the error. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and the required supplementary information on pages 39 through 40 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The schedules of Net Patient Service Revenue, Other Operating Revenues and Operating Expenses are presented for the purposes of additional analysis and are 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 basic financial statements. The 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 basic 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 basic financial statements as a whole.



Oklahoma City, Oklahoma
August 21, 2018

Introduction

This management's discussion and analysis of the financial performance of Geary Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended April 30, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relates solely to the Hospital and does not include the Hospital's component unit, Geary Community Healthcare Foundation (Foundation).

Financial Highlights

- Cash and cash equivalents increased \$533,625 or 42% in 2018 and decreased \$2,279,483 or 76% in 2017.
- The Hospital's net position decreased \$5,857,076 in 2018 and \$4,313,174 in 2017.
- The Hospital reported an operating loss of \$6,846,505 and \$4,842,959 in 2018 and 2017. The operating loss in 2018 increased by \$2,003,546 compared to the operating loss reported in 2017.

Using This Annual Report

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 statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. Geary Community Healthcare Foundation, a nonprofit organization established to raise funds for the support of health care services and programs of Geary Community Hospital and the Geary County, Kansas area, is included in the Hospital's financial statements as a component unit using the discrete presentation method.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any 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, deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the changes in the Hospital's net position. The Hospital's total net position (the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources) is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

The Hospital's Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the balance sheet. As shown in Table 1, the Hospital's net position decreased by \$5,857,076 in 2018. In 2017, net position decreased by \$4,313,174.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

| | 2018 | 2017 (Restated) | 2016 |
|--|---------------|--------------------|---------------|
| Assets and Deferred Outflows of Resources | | | |
| Cash and cash equivalents | \$ 1,264,842 | \$ 731,217 | \$ 3,010,700 |
| Patient accounts receivable, net | 4,767,254 | 5,073,078 | 5,416,761 |
| Other current assets | 2,351,714 | 5,561,039 | 4,199,806 |
| Capital assets, net | 35,823,188 | 37,922,782 | 40,188,403 |
| Other noncurrent assets | 484,056 | 864,665 | 1,005,751 |
| Total assets | 44,691,054 | 50,152,781 | 53,821,421 |
| Deferred Outflows of Resources - Pension | 2,419,898 | 3,372,664 | 1,585,063 |
| Total assets and deferred outflows of resources | \$ 47,110,952 | \$ 53,525,445 | \$ 55,406,484 |
| Liabilities | | | |
| Long-term debt, excluding current portion | \$ 5,153,562 | \$ 5,515,810 | \$ 5,284,148 |
| Current liabilities | 6,747,394 | 5,686,073 | 4,797,303 |
| Net pension liability | 14,500,272 | 15,649,704 | 14,801,907 |
| Total liabilities | 26,401,228 | 26,851,587 | 24,883,358 |
| Deferred Inflows of Resources - Pension | 2,076,778 | 2,183,836 | 1,719,930 |
| Net Position | | | |
| Net investment in capital assets | 30,307,568 | 32,046,209 | 34,450,878 |
| Restricted - expendable | 575,289 | 679,033 | 677,861 |
| Unrestricted | (12,249,911) | (8,235,220) | (6,325,543) |
| Total net position | 18,632,946 | 24,490,022 | 28,803,196 |
| Total liabilities, deferred inflows of resources and net position | \$ 47,110,952 | \$ 53,525,445 | \$ 55,406,484 |

Cash increased during the fiscal year ended April 30, 2018, due to the reinstatement of the Medicare demonstration project which increased payments. Other current assets decreased as a result of a large repayment related to the Medicare demonstration project which was included in receivables from other third-party payors in 2017. In addition, deferred outflows related to the pension plan decreased \$952,766 in the current year. Current liabilities increased from 2017 to 2018 mostly due to the timing payments toward accounts payable and a note payable to a related party which was issued during 2018. Long-term debt, excluding current portion, decreased \$362,248 or 7% due to no new long-term debt being issued in 2018.

Table 2: Operating Results and Changes in Net Position

| | 2018 | 2017 (Restated) | 2016 |
|---|-----------------------|-----------------------|-----------------------|
| Operating Revenue | | | |
| Net patient service revenue | \$ 33,329,066 | \$ 37,256,830 | \$ 39,125,537 |
| Electronic health records incentive revenue | - | - | 320,420 |
| Other revenue | 705,596 | 600,080 | 758,234 |
| Total operating revenue | <u>34,034,662</u> | <u>37,856,910</u> | <u>40,204,191</u> |
| Operating Expenses | | | |
| Salaries and employee benefits | 21,391,155 | 23,021,159 | 23,648,436 |
| Purchased services and professional fees | 7,679,704 | 7,030,283 | 7,272,218 |
| Supplies and other | 9,330,769 | 9,712,275 | 9,914,085 |
| Depreciation | 2,479,539 | 2,936,152 | 2,999,321 |
| Total operating expenses | <u>40,881,167</u> | <u>42,699,869</u> | <u>43,834,060</u> |
| Operating Loss | <u>(6,846,505)</u> | <u>(4,842,959)</u> | <u>(3,629,869)</u> |
| Nonoperating Revenues (Expenses) | | | |
| Noncapital appropriations - Geary County | 569,606 | 213,400 | 207,443 |
| Interest income | 237,823 | 271,844 | 285,036 |
| Interest expense | (250,714) | (206,949) | (229,293) |
| Debt issuance costs | - | (119,522) | - |
| Noncapital grants and contributions | 2,461 | 12,846 | 20,988 |
| Net nonoperating revenues | <u>559,176</u> | <u>171,619</u> | <u>284,174</u> |
| Capital Grants and Gifts | <u>430,253</u> | <u>358,166</u> | <u>188,041</u> |
| Change in Net Position | <u>\$ (5,857,076)</u> | <u>\$ (4,313,174)</u> | <u>\$ (3,157,654)</u> |

Operating Loss

The change in the Hospital's net position is significantly affected by its operating income or loss. Generally, this is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital has reported an operating loss of \$6,846,505 and \$4,842,959 in 2018 and 2017, respectively. The operating loss for 2018 is an increase of \$2,659,257 from the operating loss for 2017.

The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$3,927,764 or 11%, compared to a decrease of \$1,868,707 or 5% in 2017.
- Overall inpatient and outpatient volumes and revenues continued to decline.
- The Hospital saw an increase in bad debt expense which was primarily due to moving collections of patient balances inhouse.
- A decrease in salary and employee benefits of \$1,630,004 or 8%, compared with the \$627,277 or 4% decline in 2017.
- An increase in purchased services and professional fees of \$649,421 or 8%, compared to a decrease of \$241,935 or 3% in 2017.
- Overall operating expenses decreased \$1,818,702 during 2018 compared to a decrease of \$1,506,055 in 2017.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of gifts, county tax proceeds, investment income and interest expense.

Capital Grants and Gifts

The Hospital received gifts of \$430,253 from various individuals to purchase capital assets in 2018, compared to \$358,166 in 2017. Capital grants and gifts are mostly gifts from the Geary Community Healthcare Foundation which are tied to specific construction projects or to equipment purchases.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At April 30, 2018 and 2017, the Hospital had \$35,823,188 and \$37,922,782 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In fiscal years 2018 and 2017, the Hospital acquired new capital assets with a total cost of \$379,945 and \$670,531. Net capital assets amounts were reduced by normal depreciation of assets in the amount of \$ 2,479,539 in 2018 and \$ 2,936,152 in 2017.

Debt

At April 30, 2018 and 2017, the Hospital had \$5,515,620 and \$5,876,570 in revenue bonds and capital lease obligations outstanding, as detailed in Notes 6 and 7 to the financial statements. During the year ended April 30, 2017, the Hospital refinanced the Public Commission Bonds through an advance refunding. In 2018, the Hospital made scheduled payments on outstanding debt.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by telephoning 785.238.4131.

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| | <u>2018</u> | <u>2017</u> (Restated) |
|---|----------------------|---------------------------|
| Assets and Deferred Outflows of Resources | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,264,842 | \$ 731,217 |
| Restricted cash - current | 30,609 | 30,397 |
| Receivables | | |
| Patients, net of estimated uncollectibles of \$7,928,000 in 2018 and \$6,431,000 in 2017 | 4,767,254 | 5,073,078 |
| Estimated third-party settlements | 424,009 | 3,645,794 |
| Supplies | 1,330,729 | 1,416,217 |
| Prepaid expenses and other | 566,367 | 468,631 |
| | <u>8,383,810</u> | <u>11,365,334</u> |
| Noncurrent Cash and Investments | | |
| Held under bond indenture for debt service - cash | 30,609 | 30,397 |
| Held under bond indenture for debt service - short-term certificates of deposit | 440,509 | 436,082 |
| Restricted by donors for specific operating activities - cash | 43,547 | 294,006 |
| | <u>514,665</u> | <u>760,485</u> |
| Less amount required to meet current obligations | <u>30,609</u> | <u>30,397</u> |
| | <u>484,056</u> | <u>730,088</u> |
| Capital Assets | | |
| Capital assets not being depreciated | 170,123 | 172,357 |
| Capital assets being depreciated, net | 35,653,065 | 37,750,425 |
| | <u>35,823,188</u> | <u>37,922,782</u> |
| Other Assets | | |
| | <u>-</u> | <u>134,577</u> |
| | 44,691,054 | 50,152,781 |
| Deferred Outflows of Resources - Pension | | |
| | <u>2,419,898</u> | <u>3,372,664</u> |
| | <u>\$ 47,110,952</u> | <u>\$ 53,525,445</u> |

See Notes to Financial Statements

Geary Community Hospital
Statements of Net Position
April 30, 2018 and 2017

| | 2018 | 2017 (Restated) |
|---|---------------|--------------------|
| Liabilities, Deferred Inflows of Resources, and Net Position | | |
| Current Liabilities | | |
| Note payable | \$ 391,351 | \$ - |
| Current maturities of long-term debt | 362,058 | 360,763 |
| Accounts payable | 3,090,281 | 3,099,186 |
| Accrued expenses | | |
| Salaries, wages and benefits | 2,759,402 | 2,201,808 |
| Interest | 25,217 | 20,217 |
| Unearned revenue | 119,085 | 4,099 |
| Total current liabilities | 6,747,394 | 5,686,073 |
| Long-Term Debt, Less Current Maturities | 5,153,562 | 5,515,810 |
| Net Pension Liability | 14,500,272 | 15,649,704 |
| Total liabilities | 26,401,228 | 26,851,587 |
| Deferred Inflows of Resources | | |
| Pension | 2,076,778 | 2,183,836 |
| Net Position | | |
| Net investment in capital assets | 30,307,568 | 32,046,209 |
| Restricted | | |
| Expendable for debt service | 471,118 | 324,403 |
| Expendable for specific operating activities | 104,171 | 104,130 |
| Expendable for capital purchases | - | 250,500 |
| Unrestricted | (12,249,911) | (8,235,220) |
| Total net position | 18,632,946 | 24,490,022 |
| Total liabilities, deferred inflows of resources, and net position | \$ 47,110,952 | \$ 53,525,445 |

Geary Community Hospital
 Statements of Financial Position - Discretely Presented Component Unit
 Geary Community Healthcare Foundation
 December 31, 2017 and 2016

| | 2017 | 2016 (Restated) |
|---|--------------|--------------------|
| Assets | | |
| Current Assets | | |
| Bank deposits available for operations | \$ 68,022 | \$ 36,614 |
| Bank deposits restricted for a specific purpose | 426,876 | 491,639 |
| Total cash and cash equivalents | 494,898 | 528,253 |
| Programmatic loan | 669,214 | - |
| Total current assets | 1,164,112 | 528,253 |
| Non-Current Assets | | |
| Investments in marketable securities | 3,846,508 | 4,136,821 |
| Total Assets | \$ 5,010,620 | \$ 4,665,074 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Annuities payable | \$ 2,075 | \$ 10,940 |
| Note payable | 669,214 | - |
| Total liabilities | 671,289 | 10,940 |
| Net Assets | | |
| Net assets - unrestricted | 3,912,455 | 4,162,495 |
| Net assets - temporarily restricted | 426,876 | 491,639 |
| Total net assets | 4,339,331 | 4,654,134 |
| Total liabilities and net assets | \$ 5,010,620 | \$ 4,665,074 |

Geary Community Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended April 30, 2018 and 2017

| | 2018 | 2017 (Restated) |
|---|---------------|--------------------|
| Operating Revenue | | |
| Net patient service revenue (net of provision for bad debts of \$8,070,000 in 2018 and \$5,194,000 in 2017) | \$ 33,329,066 | \$ 37,256,830 |
| Other revenue | 705,596 | 600,080 |
| Total operating revenues | 34,034,662 | 37,856,910 |
| Operating Expenses | | |
| Salaries and wages | 17,450,459 | 18,990,534 |
| Employee benefits | 3,940,696 | 4,030,625 |
| Purchased services and professional fees | 7,679,704 | 7,030,283 |
| Supplies and other | 9,330,769 | 9,712,275 |
| Depreciation | 2,479,539 | 2,936,152 |
| Total operating expenses | 40,881,167 | 42,699,869 |
| Operating Loss | (6,846,505) | (4,842,959) |
| Nonoperating Revenues (Expenses) | | |
| Noncapital appropriations - Geary County | 569,606 | 213,400 |
| Interest income | 237,823 | 271,844 |
| Interest expense | (250,714) | (206,949) |
| Debt issuance costs | - | (119,522) |
| Noncapital grants and contributions | 2,461 | 12,846 |
| Net nonoperating revenues | 559,176 | 171,619 |
| Expenses in Excess of Revenues before Capital Contributions and Grants | (6,287,329) | (4,671,340) |
| Capital Contributions and Grants | 430,253 | 358,166 |
| Change in Net Position | (5,857,076) | (4,313,174) |
| Net Position, Beginning of Year | 24,490,022 | 28,803,196 |
| Net Position, End of Year | \$ 18,632,946 | \$ 24,490,022 |

Geary Community Hospital
 Statements of Activities - Discretely Presented Component Unit
 Geary Community Healthcare Foundation
 December 31, 2017 and 2016

| | 2017 | 2016 (Restated) |
|--|--------------|--------------------|
| Unrestricted Net Assets | | |
| Revenues, Gains and Other Support | | |
| Contributions | \$ 307,855 | \$ 101,166 |
| Fundraising events | 99,922 | 107,737 |
| Net investment income | 655,747 | 188,289 |
| Other gains (losses) | - | (10,721) |
| Net assets released from restrictions | 1,013,369 | 746,598 |
| Total revenues, gains and other support | 2,076,893 | 1,133,069 |
| Expenses | | |
| Program expenses | 2,151,038 | 982,936 |
| Management and general | 125,970 | 127,339 |
| Fundraising | 49,925 | 52,113 |
| Total expenses | 2,326,933 | 1,162,388 |
| Change in Unrestricted Net Assets | (250,040) | (29,319) |
| Unrestricted Net Assets, Beginning of Year | 4,162,495 | 4,191,814 |
| Unrestricted Net Assets, End of Year | \$ 3,912,455 | \$ 4,162,495 |
| Temporarily Restricted Net Assets | | |
| Revenues, Gains and Other Support | | |
| Contributions | \$ 948,606 | \$ 680,860 |
| Net assets released from restrictions | (1,013,369) | (746,598) |
| Change in Temporarily Restricted Net Assets | (64,763) | (65,738) |
| Temporarily Restricted Net Assets, Beginning of Year | 491,639 | 557,377 |
| Temporarily Restricted Net Assets, End of Year | \$ 426,876 | \$ 491,639 |
| Total Net Assets | | |
| Total Change in Net Assets | \$ (314,803) | \$ (95,057) |
| Total Net Assets, Beginning of Year | 4,654,134 | 4,749,191 |
| Total Net Assets, End of Year | \$ 4,339,331 | \$ 4,654,134 |

Geary Community Hospital
Statements of Cash Flows
Years Ended April 30, 2018 and 2017

| | 2018 | 2017 (Restated) |
|--|---------------|--------------------|
| Operating Activities | | |
| Receipts from or on behalf of patients | \$ 36,856,675 | \$ 35,687,719 |
| Payments to suppliers and contractors | (16,917,479) | (15,872,484) |
| Payments to and on behalf of employees | (21,018,200) | (23,161,283) |
| Other receipts and payments, net | 705,596 | 600,080 |
| Net Cash used for Operating Activities | (373,408) | (2,745,968) |
| Noncapital Related Financing Activities | | |
| Noncapital appropriations - Geary County | 569,606 | 213,400 |
| Proceeds from issuance of note payable | 1,244,972 | - |
| Principal payments on note payable | (853,621) | - |
| Interest paid on note payable | (25,408) | - |
| Noncapital grants and gifts | 2,461 | 12,846 |
| Net Cash from Noncapital Financing Activities | 938,010 | 226,246 |
| Capital and Capital Related Financing Activities | | |
| Principal payments on long-term debt | (344,622) | (4,919,211) |
| Proceeds from the issuance of long-term debt | - | 4,310,000 |
| Interest paid on long-term debt | (220,306) | (228,995) |
| Payment of financing costs | - | (119,522) |
| Payment of premium for refunded debt | - | 244,963 |
| Capital grants and gifts | 430,253 | 358,166 |
| Purchase of capital assets | (379,945) | (156,347) |
| Net Cash used for Capital and Capital Related Financing Activities | (514,620) | (510,946) |
| Investing Activities | | |
| Investment income | 237,823 | 271,844 |
| Net change in certificates of deposit | - | 65,066 |
| Net change in construction escrow and debt-related accounts | (4,427) | 391,071 |
| Net Cash from Investing Activities | 233,396 | 727,981 |
| Net Change in Cash and Cash Equivalents | 283,378 | (2,302,687) |
| Cash and Cash Equivalents, Beginning of Year | 1,055,620 | 3,358,307 |
| Cash and Cash Equivalents, End of Year | \$ 1,338,998 | \$ 1,055,620 |

Geary Community Hospital
Statements of Cash Flows
Years Ended April 30, 2018 and 2017

| | 2018 | 2017 (Restated) |
|--|----------------|--------------------|
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and cash equivalents | \$ 1,264,842 | \$ 731,217 |
| Restricted cash - current | 30,609 | 30,397 |
| Restricted by donors for specific operating activities - cash | 43,547 | 294,006 |
| Total cash and cash equivalents | \$ 1,338,998 | \$ 1,055,620 |
| Reconciliation of Operating Loss to Net Cash used for Operating Activities | | |
| Operating loss | \$ (6,846,505) | \$ (4,842,959) |
| Provision for bad debt | (8,069,815) | (5,193,818) |
| Depreciation | 2,479,539 | 2,936,152 |
| Amortization included in interest expense | (16,331) | (10,887) |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | | |
| Patient receivables | 8,375,639 | 5,537,501 |
| Estimated third-party payor settlements | 3,221,785 | (1,912,794) |
| Supplies | 85,488 | 55,846 |
| Prepaid expenses | (97,736) | 221,988 |
| Accounts payable and accrued expenses | 548,689 | 1,089,870 |
| Net pension liability | (1,149,432) | 847,797 |
| Deferred outflows of resources | 952,766 | (1,787,601) |
| Deferred inflows of resources | 12,027 | 463,906 |
| Unearned revenue | (4,099) | (86,441) |
| Other assets and liabilities | 134,577 | (64,528) |
| Net Cash used for Operating Activities | \$ (373,408) | \$ (2,745,968) |
| Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities | | |
| Equipment financed through capital lease arrangement | \$ - | \$ 514,184 |

Geary Community Hospital
Statements of Cash Flows - Discretely Presented Component Unit
Geary Community Healthcare Foundation
Years Ended December 31, 2017 and 2016

| | 2017 | 2016 (Restated) |
|---|--------------|--------------------|
| Operating Activities | | |
| Change in net assets | \$ (314,803) | \$ (95,057) |
| Adjustments to reconcile change in net assets to net cash | | |
| Net investment return | 655,747 | 188,289 |
| Change in annuities payable | (8,865) | (3,977) |
| Total adjustments | 646,882 | 184,312 |
| Cash Provided by Operating Activities | 332,079 | 89,255 |
| Cash Flows from Investing Activities | | |
| Sale of investments | 753,201 | 1,612,220 |
| Purchase of investments | (1,787,849) | (1,870,510) |
| Cash Used in Investing Activities | (1,034,648) | (258,290) |
| Cash Flows from Financing Activities | | |
| Proceeds from note payable | 1,244,972 | - |
| Principal repayments on note payable | (575,758) | - |
| Cash Provided by Financing Activities | 669,214 | - |
| Change in Cash | (33,355) | (169,035) |
| Cash, Beginning of Year | 528,253 | 697,288 |
| Cash, End of Year | \$ 494,898 | \$ 528,253 |
| Supplemental Cash Flow Information | | |
| Cash paid for interest | \$ 11,621 | \$ - |

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Geary County Hospital (Hospital), a component unit of Geary County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is an acute care hospital located in Junction City, Kansas. The Hospital is a component unit of Geary County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the County area.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Discretely Presented Component Unit

Geary Community Healthcare Foundation (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the Hospital in support of its programs. The fifteen member board of the Foundation is self-perpetuating and consists of the Chief Executive Officer (CEO) of the Hospital, three Hospital board members and eleven community members. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Hospital by the donors or are provided to the Hospital for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Hospital and for the benefit of patients served by the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation's financial statements are presented on a December 31 year-end basis.

During the years ended April 30, 2018 and 2017, the Foundation distributed \$430,253 and \$275,325, to the Hospital for both restricted and unrestricted purposes. In addition, the Hospital entered into a note payable to the Foundation during 2018 which is secured by a pledge of the Hospital's patient accounts receivable (Note 7). Complete financial statements for the Foundation can be obtained from the Administrative Office at 1110 St. Mary's Road, Junction City, Kansas 66441.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Hospital's financial reporting entity for these differences.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents

Short-Term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

Noncapital Appropriations

The Hospital received approximately 1.67% and 0.56% of its financial support from Geary County. The funds were used to support operations.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors are turned over to a collection agency if the receivables remain unpaid after the Hospital's collection procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. The net patient service revenue for the years ended April 30, 2018 and 2017 decreased by approximately \$942,000 and \$1,350,000 as a result of changes in estimates related to allowances.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent Cash and Investments

Noncurrent cash and investments are restricted by the trustee for debt reserve and capital asset replacement, and restricted by donors. Certificates of deposit and other deposits are recorded at historical cost.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

| | |
|-------------------------|---------------|
| Land improvements | 5 - 20 years |
| Buildings | 15 - 50 years |
| Fixed Equipment | 10 - 18 years |
| Major movable equipment | 3 - 20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from expenses in excess of revenue. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Unearned Revenue

Unearned revenue represents funds received in connection with the Medicaid Disproportionate Share (DSH) Program. Payments are made on a quarterly basis. The Hospital received the quarterly payment, which related to the April through June time window, prior to year-end and deferred the revenue related to May and June.

Bond Premiums and Discounts

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life debt using the effective interest method. Amortization is included in interest expense.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, other differences between expected and actual experience, and contributions from the employer after the measurement date but before the end of the Hospital's reporting period. The Hospital's deferred outflows of resources are recognized as a component of compensation expense in the following year related to employer contributions, compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the plan. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that maybe realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determine during the termination payment method.

Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERs). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERs and additions to/deductions from KPERs's fiduciary net position have been determined on the same basis as they are reported by KPERs. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience, all associated with the Hospital's participation in the KPERs plan. The Hospital's deferred inflows of resources related to pensions are recognized as a component of compensation expense over five years for the difference in projected and actual earnings, or over the expected remaining service life of the plan.

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 and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amount different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. 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.

Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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 is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after expenses in excess of revenues.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$163,000 and \$300,000 for the years ended April 30, 2018 and 2017, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Reclassifications

Reclassifications have been made to the April 30, 2017 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - 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. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care and skilled swing-bed services are paid at cost, subject to certain limitations, under a demonstration project with Medicare. Additional reimbursements paid to the Hospital under this program were approximately \$2,862,000 in 2018 and \$2,883,000 in 2017 and are reported within net patient service revenue. Substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. The outpatient payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation services, inpatient geropsychiatric services, medical education costs and home health agency services are paid at prospectively determined per diem rates that are based on the patients' acuity. Rural Health Clinic services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended April 30, 2016.

Medicaid. Inpatient and most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Rural Health Clinic services are paid on a cost reimbursement methodology. Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were \$803,531 and \$536,248 in 2018 and 2017, respectively.

The Hospital has qualified for additional reimbursements from the Tricare program under its hold harmless provisions regarding certain outpatient services provided on and after January 1, 2010. Regulations have been issued regarding this reimbursement, however, due to the uncertainty surrounding the computations and significant delays in implementation of these payment provisions, no amounts have been recorded in the financial statements.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended April 30, 2018 and 2017:

| | 2018 | 2017 |
|--------------------------------------|------|------|
| Medicare | 39% | 35% |
| State-sponsored Medicaid program | 14% | 14% |
| Blue Cross and commercial insurances | 41% | 46% |
| Uninsured | 6% | 5% |
| | 100% | 100% |

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3 - Deposits and Investment Income

Deposits

The carrying values of deposits and investments as of April 30, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|-------------------|--------------|--------------|
| Carrying Amount | | |
| Cash and deposits | \$ 1,779,507 | \$ 1,491,702 |

Deposits and investments are reported in the following statement of net position captions:

| | 2018 | 2017 |
|---|--------------|--------------|
| Cash and cash equivalents | \$ 1,264,842 | \$ 731,217 |
| Restricted cash - current | 30,609 | 30,397 |
| Held under bond indenture for debt service - short-term certificates of deposit | 440,509 | 436,082 |
| Restricted by donors for specific operating activities - cash | 43,547 | 294,006 |
| | \$ 1,779,507 | \$ 1,491,702 |

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at April 30, 2018 and 2017 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended April 30, 2018 are as follows:

| | Balance April 30, 2017 | Additions | Transfers and Retirements | Balance April 30, 2018 |
|---|------------------------------|---------------------|------------------------------|------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 167,372 | \$ - | \$ - | \$ 167,372 |
| Construction in progress | 4,985 | 102,215 | (104,449) | 2,751 |
| Total capital assets not being depreciated | <u>\$ 172,357</u> | <u>\$ 102,215</u> | <u>\$ (104,449)</u> | <u>\$ 170,123</u> |
| Capital assets being depreciated | | | | |
| Land improvements | \$ 1,080,395 | \$ - | \$ - | \$ 1,080,395 |
| Buildings | 52,468,928 | 16,353 | 11,735 | 52,497,016 |
| Fixed equipment | 4,591,644 | - | - | 4,591,644 |
| Major moveable equipment | 20,329,701 | 261,377 | 75,714 | 20,666,792 |
| Total capital assets being depreciated | <u>78,470,668</u> | <u>\$ 277,730</u> | <u>\$ 87,449</u> | <u>78,835,847</u> |
| Less accumulated depreciation for | | | | |
| Land improvements | 1,017,689 | \$ 6,480 | \$ - | 1,024,169 |
| Buildings | 18,554,040 | 1,684,595 | (17,000) | 20,221,635 |
| Fixed equipment | 4,296,269 | 19,907 | - | 4,316,176 |
| Major moveable equipment | 16,852,245 | 768,557 | - | 17,620,802 |
| Total accumulated depreciation | <u>40,720,243</u> | <u>\$ 2,479,539</u> | <u>\$ (17,000)</u> | <u>43,182,782</u> |
| Net capital assets being depreciated | <u>\$ 37,750,425</u> | | | <u>\$ 35,653,065</u> |
| Capital assets, net | <u>\$ 37,922,782</u> | | | <u>\$ 35,823,188</u> |

Capital assets additions, retirements, transfers and balances for the years ended April 30, 2017 are as follows:

| | Balance April 30, 2016 | Additions | Transfers and Retirements | Balance December 31, 2017 |
|---|------------------------------|---------------------|------------------------------|---------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 167,372 | \$ - | \$ - | \$ 167,372 |
| Construction in progress | 60,780 | 4,985 | (60,780) | 4,985 |
| Total capital assets not being depreciated | <u>\$ 228,152</u> | <u>\$ 4,985</u> | <u>\$ (60,780)</u> | <u>\$ 172,357</u> |
| Capital assets being depreciated | | | | |
| Land improvements | \$ 1,080,395 | \$ - | \$ - | \$ 1,080,395 |
| Buildings | 52,368,411 | 39,737 | 60,780 | 52,468,928 |
| Fixed equipment | 4,551,163 | 40,481 | - | 4,591,644 |
| Major moveable equipment | 19,989,708 | 585,328 | (245,335) | 20,329,701 |
| Total capital assets being depreciated | <u>77,989,677</u> | <u>\$ 665,546</u> | <u>\$ (184,555)</u> | <u>78,470,668</u> |
| Less accumulated depreciation for | | | | |
| Land improvements | 1,011,164 | \$ 6,525 | \$ - | 1,017,689 |
| Buildings | 17,067,006 | 1,732,369 | (245,335) | 18,554,040 |
| Fixed equipment | 4,271,061 | 25,208 | - | 4,296,269 |
| Major moveable equipment | 15,680,195 | 1,172,050 | - | 16,852,245 |
| Total accumulated depreciation | <u>38,029,426</u> | <u>\$ 2,936,152</u> | <u>\$ (245,335)</u> | <u>40,720,243</u> |
| Net capital assets being depreciated | <u>\$ 39,960,251</u> | | | <u>\$ 37,750,425</u> |
| Capital assets, net | <u>\$ 40,188,403</u> | | | <u>\$ 37,922,782</u> |

Note 5 - Advances to Physicians

The Hospital has entered into agreements with certain physicians to assist them in starting their practices. Advances made under these agreements are to be repaid when the practice income exceeds specified amounts within a defined time period.

At April 30, 2018 and 2017, there were advances to physicians outstanding in the amounts of \$0 and \$134,577, net of allowances of \$260,148 and \$124,733. The outstanding principal balances for the various physician agreements accrue interest at the rate of prime plus 1% per annum and are forgiven after various years of service, dependent upon the physician's contract. If prior to the agreed upon anniversary date of the employment agreement, the physician voluntarily terminates their employment with the Hospital or is terminated for justifiable causes, the unpaid principal balance and all accrued unpaid interest of the agreement shall become due and payable in full immediately.

Note 6 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended April 30, 2018 and 2017 for all operating leases was \$206,261 and \$235,866. The capitalized leased assets consist of

| | 2018 | 2017 |
|-------------------------------|--------------|--------------|
| Major movable equipment | \$ 2,179,770 | \$ 2,179,770 |
| Less accumulated amortization | (1,321,255) | (926,079) |
| | \$ 858,515 | \$ 1,253,691 |

Minimum future lease payments for the capital leases are as follows:

| Years Ending April 30, | | |
|--|----|-----------|
| 2019 | \$ | 377,347 |
| 2020 | | 341,679 |
| 2021 | | 281,775 |
| 2022 | | 46,148 |
| Total minimum lease payments | | 1,046,949 |
| Less amount representing interest | | 59,074 |
| Present value of minimum lease payments - Note 7 | \$ | 987,875 |

Note 7 - Note Payable and Long-Term Debt

Note Payable

In August of 2017, the Foundation entered into an agreement with a bank for a note payable for up to \$2,000,000 to lend the proceeds to the Hospital. Total proceeds of \$1,244,972 were drawn on the agreement by the Foundation and transferred to the Hospital during the year ended April 30, 2018. In return, the Hospital entered into a promissory note with the Foundation, which is secured by a pledge of the Hospital's patient accounts receivable. The terms of the note include a 2% discount on the pledged receivables which totaled \$25,408. Repayments of \$879,028 were made to the Foundation during the year ended April 30, 2018. The note payable includes interest at 4% and matures August 2018.

Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2018 and 2017 is as follows:

| | Balance April 30, 2017 | Additions | Payments | Balance April 30, 2018 | Due Within One Year |
|--|------------------------------|-------------|-------------------|------------------------------|------------------------|
| Bonds Payable | | | | | |
| 2016 Public Building Commission bond advance refunding | \$ 4,310,000 | \$ - | \$ - | \$ 4,310,000 | \$ - |
| Reoffering premium | 234,076 | - | 16,331 | 217,745 | 16,331 |
| Total bonds | 4,544,076 | - | 16,331 | 4,527,745 | 16,331 |
| Capital Leases (Note 6) | 1,332,497 | - | 344,622 | 987,875 | 345,727 |
| | <u>\$ 5,876,573</u> | <u>\$ -</u> | <u>\$ 360,953</u> | <u>\$ 5,515,620</u> | <u>\$ 362,058</u> |

| | Balance April 30, 2016 | Additions | Payments | Balance April 30, 2017 | Due Within One Year |
|--|------------------------------|---------------------|---------------------|------------------------------|------------------------|
| Bonds Payable | | | | | |
| Public Building Commission bonds | \$ 4,625,000 | \$ - | \$ 4,625,000 | \$ - | \$ - |
| 2016 Public Building Commission bond advance refunding | - | 4,310,000 | - | 4,310,000 | - |
| Reoffering premium | - | 244,963 | 10,887 | 234,076 | 16,331 |
| Total bonds | 4,625,000 | 4,554,963 | 4,635,887 | 4,544,076 | 16,331 |
| Capital Leases (Note 6) | 1,112,524 | 514,184 | 294,211 | 1,332,497 | 344,432 |
| | <u>\$ 5,737,524</u> | <u>\$ 5,069,147</u> | <u>\$ 4,930,098</u> | <u>\$ 5,876,573</u> | <u>\$ 360,763</u> |

During 2017, the Hospital issued \$4,310,000 in Refunding Revenue Bonds, Series 2016 (Series 2016 Bonds) with interest at 2.87% per annum to advance refund \$4,420,000 of outstanding Public Building Commission Revenue Bonds with interest at 4.61% per annum.

The advance refunding did not result in a material difference between the reacquisition price and net carrying amount of the old debt. The Hospital completed its advance refunding to reduce its total debt service payments over the next 29 years by approximately \$511,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$7,481.

Public Building Commission Bonds Payable

As of September 1, 2016, the Public Building Commission bonds payable consist of Geary County, Kansas Public Building Commission Revenue Bonds Series 2016 in the original amount of \$4,310,000 bearing interest at 2.87%. The Bonds are payable in semiannual interest only payments beginning February 1, 2017 through February 1, 2019. Annual principal payments begin August 1, 2019 through August 1, 2031.

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage and maintaining a debt-service coverage ratio of at least 1.25 to 1. As of April 30, 2018 and 2017, the Hospital was not in compliance with one or more of the restrictive covenants listed above. As a result of the noncompliance, the Hospital is to retain an outside consultant to review operations. However, the bonds are not callable as a result of not being in compliance with the covenants.

The debt service requirements of the bonds payable as of April 30, 2018, are as follows:

| Years Ending April 30, | Bonds Payable | | Total |
|------------------------|---------------------|-------------------|---------------------|
| | Principal | Interest | |
| 2019 | \$ - | \$ 124,718 | \$ 124,718 |
| 2020 | 240,000 | 121,364 | 361,364 |
| 2021 | 285,000 | 113,856 | 398,856 |
| 2022 | 290,000 | 105,560 | 395,560 |
| 2023 | 300,000 | 96,973 | 396,973 |
| 2024 - 2028 | 1,650,000 | 345,928 | 1,995,928 |
| 2029 - 2032 | 1,545,000 | 90,903 | 1,635,903 |
| | <u>\$ 4,310,000</u> | <u>\$ 999,302</u> | <u>\$ 5,309,302</u> |

Note 8 - Pension Plan

Plan Description

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

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

The Hospital's employees participate in the Local group.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended April 30, 2018 and 2017, was 9.46% (8.46% and the 1% for death and dismemberment starting on September 30, 2017) and 9.20% of annual payroll. The employer contribution is actuarially determined as an amount that, when combined with 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's contributions to KPERS for the pension plan for the years ended April 30, 2018 and 2017, were \$1,288,556 and \$1,537,287.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan

At April 30, 2018 and 2017, the Hospital reported a liability of \$14,500,272 and \$15,649,704, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, rolled forward to June 30, 2017 and 2016. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2017, the Hospital's proportion was 1.001085%, which was a decrease of .010513% from its proportion measured as of June 30, 2016, of 1.011597%. At June 30, 2015, the proportion was 1.127297%.

For the years ended April 30, 2018, 2017 and 2016, the Hospital recognized pension expense of \$1,003,65, \$1,051,190 and \$1,247,571. At April 30, 2018 and 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2018 | | 2017 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 70,132 | \$ 501,389 | \$ - | \$ 282,461 |
| Net difference between projected and actual earnings on pension plan investments | 454,849 | - | 1,848,697 | - |
| Changes in assumptions | 780,899 | 106,032 | 90,831 | 146,393 |
| Changes in proportion | 99,836 | 1,469,357 | 154,691 | 1,754,982 |
| Hospital's contributions subsequent to the measurement date | <u>1,014,182</u> | <u>-</u> | <u>1,278,445</u> | <u>-</u> |
| Total | <u>\$ 2,419,898</u> | <u>\$ 2,076,778</u> | <u>\$ 3,372,664</u> | <u>\$ 2,183,836</u> |

At April 30, 2018, the Hospital reported \$2,419,898 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending April 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at April 30, 2018, related to pensions will be recognized in pension expense as follows:

| <u>Years Ended April 30,</u> | |
|------------------------------|----------------------------|
| 2019 | \$ (411,427) |
| 2020 | 143,877 |
| 2021 | (82,518) |
| 2022 | (353,933) |
| 2023 | <u>32,939</u> |
| Total | <u><u>\$ (671,062)</u></u> |

Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% |
| Salary increases | 3.5% to 12%, including inflation |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

The total pension liability in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3% |
| Salary increases | 4% to 16%, including inflation |
| Investment rate of return | 8%, net of pension plan investment expense, including inflation |

The December 31, 2016 actuarial valuations used mortality rates based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The December 31, 2015 actuary valuations used mortality rates based on the RP-2000 Combined Mortality Table for males and females Annuitant table, as appropriate with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation was based on the results of an actuarial experience study for the three-year period ended January 1, 2013 through December 31, 2015. The actuarial assumptions used in the December 31, 2015 valuation was based on the results of an actuarial experience study for the three-year period ended 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 table:

| Asset Class | 2018 | | 2017 | |
|------------------------|-------------------|--|-------------------|--|
| | Target Allocation | Long-Term Expected Real Rate of Return | Target Allocation | Long-Term Expected Real Rate of Return |
| Global equity | 47% | 6.8% | 47% | 6.8% |
| Fixed income | 13% | 1.3% | 13% | 1.3% |
| Yield driven | 8% | 6.6% | 8% | 6.6% |
| Real return | 11% | 1.7% | 11% | 1.7% |
| Real estate | 11% | 5.1% | 11% | 5.1% |
| Alternatives | 8% | 9.9% | 8% | 9.9% |
| Short-term investments | 2% | -0.3% | 2% | -0.3% |
| | 100% | | 100% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the year ended December 31, 2017 and 8% for the year ended December 31, 2016. The projection of cash flows used to determine the discount rate assumed that member 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 KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. 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 Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75% at December 31, 2017 and 8% for December 31, 2016. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Hospital's proportionate share of the net pension liability (2018) | \$ 20,883,561 | \$ 14,500,272 | \$ 9,119,409 |
| | 1% Decrease (7%) | Current Discount Rate (8%) | 1% Increase (9%) |
| Hospital's proportionate share of the net pension liability (2017) | \$ 21,450,451 | \$ 15,649,704 | \$ 10,731,123 |

Pension Plan Fiduciary Net Position

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

Note 9 - Restricted and Designated Net Positions

At April 30, 2018 and 2017, restricted expendable net positions were available for the following purposes:

| | 2018 | 2017 |
|--|------------|------------|
| Debt Service | \$ 471,118 | \$ 324,403 |
| Specific Operating activities | | |
| Nursing scholarships | 104,171 | 104,130 |
| Capital purchases | - | 250,500 |
| Total restricted expendable net position | \$ 575,289 | \$ 679,033 |

Note 10 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of gross receivables from third-party payors and patients at April 30, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|----------------------------------|------|------|
| Medicare | 27% | 22% |
| State-sponsored Medicaid program | 7% | 9% |
| Blue Cross | 8% | 8% |
| Commercial insurances | 24% | 23% |
| Patients | 34% | 38% |
| | 100% | 100% |

Note 11 - Contingencies

Risk Management

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

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported.

Malpractice Insurance

The Hospital purchases medical malpractice insurance under a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy terms, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Self-Funded Health Plan

Beginning May 1, 2016, the Hospital is self-funded for health benefits for eligible employees and their dependents. The Hospital, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims that will be paid by the Hospital. The Hospital has stop loss insurance to cover catastrophic claims in excess of \$135,000 and \$125,000 and an annual aggregate limit of \$1,000,000 and \$1,000,000 for the plan years ended April 30, 2018 and 2017.

The Hospital expenses amounts representing the employer’s portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued expenses in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past two years are as follows:

| Year | Beginning Liability | Current Year Claims and Changes in Estimates | Claim Payments | Ending Liability |
|------|------------------------|---|-------------------|---------------------|
| 2018 | \$ 371,864 | \$ 2,694,585 | \$ (2,947,842) | \$ 118,607 |
| 2017 | - | 1,827,737 | (1,455,873) | 371,864 |

The Hospital terminated its self-funded health plan on May 1, 2018.

Note 12 - Geary Community Healthcare Foundation

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for the support of health and health care program in the County and the Hospital.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations as prescribed by the Financial Accounting Standards Board (FASB).

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of one year or less to be cash equivalents. Cash and cash equivalents consist of bank accounts and certificates of deposit located at various financial institutions and brokerages.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statement of Activities. Accordingly, expenses that benefit both programs and supporting activities have been allocated using management's estimates.

Advertising and Promotion Expense

The Foundation's advertising and promotion costs are expensed as incurred and are separately reported on the statement of functional expense as advertising and promotion expense.

Fair Value Measurement

The Foundation reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

Income Taxes and Uncertain Tax Positions

The Foundation is organized as a Kansas nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). Further, the Foundation qualifies for the charitable contribution deduction under IRC section 170(b)(1)(A)(vi) and has been determined not to be a private foundation under IRC Sections 509(a)(1).

The Foundation is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS on an annual basis. In addition, each of these entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. For 2017 and 2016, the Foundation has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Returns filed by the Foundation are subject to IRS examination, generally for three years after each return is filed. No taxing authorities have commenced income tax examinations for open tax years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Correction of Error

During 2017, the Foundation identified misstatements within the 2016 financial statements related to the presentation of cash balances and net assets with donor restrictions, amounts released from restrictions, and cash flows associated with investment transactions. The Foundation restated its previously issued financial statements to appropriately reflect these balances.

The following is a summary of the effects of the restatement in the Foundation's December 31, 2016 statement of financial position:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|---|-----------------------------------|--------------------------------|--------------------|
| Assets | | | |
| Bank deposits available for operations | \$ - | \$ 36,614 | \$ 36,614 |
| Bank deposits restricted for a specific purpose | 75,310 | 416,329 | 491,639 |
| Total cash and cash equivalents | 509,503 | 18,750 | 528,253 |
| Investments in marketable securities | 4,080,261 | 56,560 | 4,136,821 |
| Net Assets | | | |
| Net assets - temporarily restricted | 75,310 | 416,329 | 491,639 |
| Net assets - unrestricted | 4,578,824 | (416,329) | 4,162,495 |

The following is a summary of the effects of the restatement in the Foundation's December 31, 2016 statement of activities:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|--|-----------------------------------|--------------------------------|--------------------|
| Unrestricted Revenues | | | |
| Unrestricted revenues, gains and other support | \$ 469,628 | \$ (83,157) | \$ 386,471 |
| Net assets released from restrictions | - | 746,598 | 746,598 |
| Total revenues and changes in restrictions | | | |
| Unrestricted Expenses | | | |
| Program expenses | 241,239 | 741,697 | 982,936 |
| Management and general | 133,211 | (5,872) | 127,339 |
| Fundraising | 91,062 | (38,949) | 52,113 |
| Total expenses | 465,512 | 696,876 | 1,162,388 |
| Change in unrestricted net assets | 4,116 | (33,435) | (29,319) |
| Unrestricted net assets, beginning of year | 4,574,708 | (382,894) | 4,191,814 |
| Unrestricted net assets, end of year | 4,578,824 | (416,329) | 4,162,495 |
| Temporarily Restricted Revenues | | | |
| Temporarily restricted contributions | 642,522 | 38,338 | 680,860 |
| Net assets released from restrictions | (741,695) | (4,903) | (746,598) |
| Change in temporarily restricted net assets | (99,173) | 33,435 | (65,738) |
| Temporarily restricted net assets, beginning of year | 174,483 | 382,894 | 557,377 |
| Temporarily restricted net assets, end of year | 75,310 | 416,329 | 491,639 |

The following is a summary of the effects of the restatement in the Foundation's December 31, 2016 statement of cash flows:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|---------------------------------------|-----------------------------------|--------------------------------|--------------------|
| Operating Activities | | | |
| Grant accounts held for others | \$ (75,310) | \$ 75,310 | \$ - |
| Net investment return | (94,647) | 282,936 | 188,289 |
| Cash provided by operating activities | (268,991) | 358,246 | 89,255 |
| Investing Activities | | | |
| Sale of investments | 2,126,199 | (513,979) | 1,612,220 |
| Cash used in investing activities | 255,689 | (513,979) | (258,290) |
| Change in cash | (13,302) | (155,733) | (169,035) |
| Cash, beginning of year | 522,805 | 174,483 | 697,288 |
| Cash, end of year | 509,503 | 18,750 | 528,253 |

Note 13 - Correction of Error, Hospital

During 2018, the Hospital identified misstatement within the 2017 financial statements related to liabilities associated with the self-funded health insurance plan which were not recognized at April 30, 2017.

The Hospital restated its previously issued financial statements to appropriately reflect the April 30, 2017 accrued liabilities and expenses related to salaries, wages and benefits for the year ended April 30, 2017.

The following is a summary of the effects of the restatement in the Hospital's April 30, 2017 statement of net position:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|---|-----------------------------------|--------------------------------|--------------------|
| Accrued expenses - Salaries, wages and benefits | \$ 1,829,944 | \$ 371,864 | \$ 2,201,808 |
| Total current liabilities | 5,314,209 | 371,864 | 5,686,073 |
| Total liabilities | 26,479,723 | 371,864 | 26,851,587 |
| Net Position - Unrestricted | (7,863,356) | (371,864) | (8,235,220) |

The following is a summary of the effects of the restatement in the Hospital's April 30, 2017 statement of revenues, expenses and changes in net position:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|---|-----------------------------------|--------------------------------|--------------------|
| Employee benefits | \$ 3,658,761 | \$ 371,864 | \$ 4,030,625 |
| Total operating expenses | 42,328,005 | 371,864 | 42,699,869 |
| Operating loss | (4,471,095) | (371,864) | (4,842,959) |
| Expenses in Excess of Revenues before Capital Contributions and Grants | (4,299,476) | (371,864) | (4,671,340) |
| Change in Net Position | (3,941,310) | (371,864) | (4,313,174) |
| Net Position, End of Year | 24,861,886 | (371,864) | 24,490,022 |

The following is a summary of the effects of the restatement in the Hospital's April 30, 2017 statement of cash flows:

| | <u>As Previously Reported</u> | <u>Correction of Error</u> | <u>As Restated</u> |
|--|-----------------------------------|--------------------------------|--------------------|
| Operating loss | \$ (4,471,095) | (371,864) | (4,842,959) |
| Changes in accounts payable and accrued expenses | 718,006 | 371,864 | 1,089,870 |



Required Supplementary Information
April 30, 2018 and 2017

Geary Community Hospital
A Component Unit of Geary County,
Kansas

Geary Community Hospital
Schedule of the Hospital's Proportionate Share of the Net Pension Liability (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (see Note)

| | 2018* | 2017* | 2016* | 2015* |
|--|---------------|---------------|---------------|---------------|
| Hospital's proportion of the net pension liability | 1.001085% | 1.011597% | 1.127297% | 1.169507% |
| Hospital's proportionate share of the net pension liability | \$ 14,500,272 | \$ 14,102,900 | \$ 14,801,907 | \$ 14,394,445 |
| Hospital's covered-employee payroll | \$ 17,633,030 | \$ 16,701,107 | \$ 18,184,652 | \$ 18,216,708 |
| Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 82.23% | 84.44% | 81.40% | 79.02% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.12% | 65.10% | 64.95% | 66.60% |

* The amounts presented for each fiscal year are as of the measurement date (June 30 of the previous year).

Note to Schedule

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

Geary Community Hospital
Schedule of the Hospital's Contributions (Unaudited)
Kansas Public Employees Retirement System Plan

Last 10 Fiscal Years (see Note)

| | 2018* | 2017* | 2016* | 2015* |
|--|---------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 1,288,557 | \$ 1,537,287 | \$ 1,657,442 | \$ 1,712,969 |
| Contractually required contribution | 1,288,557 | 1,537,287 | 1,657,442 | 1,712,969 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Hospital's covered-employee payroll | \$ 15,231,170 | \$ 16,746,046 | \$ 17,669,957 | \$ 18,920,865 |
| Contributions as a percentage of covered-employee payroll | 8.46% | 9.18% | 9.38% | 9.05% |

* The amounts presented for each fiscal year are as of the most recent fiscal year end (April 30).

Note to Schedule

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



Supplementary Information
April 30, 2018 and 2017

Geary Community Hospital
A Component Unit of Geary County,
Kansas

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| | 2018 | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | Inpatient | Outpatient | Total |
| Daily Patient Services | | | |
| Adults and Peds | \$ 1,943,501 | \$ 1,700,155 | \$ 3,643,656 |
| Other Nursing Services | | | |
| Operating room | 5,749,319 | 7,907,876 | 13,657,195 |
| Central services and supply | 3,015,577 | 2,219,994 | 5,235,571 |
| Emergency room | 933,902 | 10,158,964 | 11,092,866 |
| | <u>9,698,798</u> | <u>20,286,834</u> | <u>29,985,632</u> |
| Other Professional Services | | | |
| Intensive Care | 1,247,084 | 177,253 | 1,424,337 |
| Nursery | 403,571 | 132,298 | 535,869 |
| Extended recovery | 1,584 | 445,927 | 447,511 |
| Anesthesiology | 1,010,916 | 1,771,516 | 2,782,432 |
| Radiology, CT, MRI and Ultrasound | 2,080,274 | 21,401,053 | 23,481,327 |
| Nuclear medicine | 30,279 | 1,369,855 | 1,400,134 |
| Laboratory | 2,610,440 | 18,500,966 | 21,111,406 |
| Intravenous therapy | 18,044 | 639,446 | 657,490 |
| Respiratory therapy | 2,120,748 | 1,962,281 | 4,083,029 |
| Physical therapy | 189,049 | 28,238 | 217,287 |
| Occupational therapy | 122,547 | 13,179 | 135,726 |
| Speech therapy | 59,811 | 20,490 | 80,301 |
| Cardiac pulmonary rehabilitation | 286,941 | 775,286 | 1,062,227 |
| Sleep lab | 6,370 | 2,279,340 | 2,285,710 |
| Pharmacy | 2,872,320 | 2,824,119 | 5,696,439 |
| Observation | - | 1,700,155 | 1,700,155 |
| Hospitalist | - | 39,068 | 39,068 |
| RHC clinics | 979,329 | 5,876,079 | 6,855,408 |
| Home medical equipment | - | 2,557,068 | 2,557,068 |
| Orthopedic clinic | 422 | 1,866,341 | 1,866,763 |
| Chapman clinic | - | 148,720 | 148,720 |
| Flint Hills Surgical clinic | (952) | 491,331 | 490,379 |
| Community wellness | - | 312 | 312 |
| | <u>14,038,777</u> | <u>65,020,321</u> | <u>79,059,098</u> |
| Gross Patient Service Revenue | <u>\$ 25,681,076</u> | <u>\$ 87,007,310</u> | <u>112,688,386</u> |
| Charity care | | | <u>455,567</u> |
| Total patient service revenue | | | <u>112,232,819</u> |
| Less Contractual Adjustments | | | |
| Medicare and Medicaid | | | 42,646,660 |
| Other | | | <u>28,187,278</u> |
| Total contractual adjustments | | | <u>70,833,938</u> |
| Provision for Bad Debts | | | <u>8,069,815</u> |
| Net Patient Service Revenue | | | <u>\$ 33,329,066</u> |

Geary Community Hospital
Net Patient Service Revenue
Years Ended April 30, 2018 and 2017

| | 2017 | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | Inpatient | Outpatient | Total |
| Daily Patient Services | | | |
| Adults and Peds | \$ 4,288,249 | \$ - | \$ 4,288,249 |
| Other Nursing Services | | | |
| Operating room | 5,436,363 | 8,890,886 | 14,327,249 |
| Central services and supply | 2,212,406 | 2,045,814 | 4,258,220 |
| Emergency room | 912,349 | 11,308,285 | 12,220,634 |
| | <u>8,561,118</u> | <u>22,244,985</u> | <u>30,806,103</u> |
| Other Professional Services | | | |
| Intensive Care | 1,466,544 | - | 1,466,544 |
| Nursery | 622,974 | - | 622,974 |
| Ambulatory | 325 | 353 | 678 |
| Extended recovery | 1,789 | 440,352 | 442,141 |
| Anesthesiology | 949,273 | 2,001,895 | 2,951,168 |
| Radiology, CT, MRI and Ultrasound | 2,045,806 | 22,361,313 | 24,407,119 |
| Nuclear medicine | 29,006 | 1,446,403 | 1,475,409 |
| Laboratory | 2,783,471 | 18,134,398 | 20,917,869 |
| Intravenous therapy | 9,145 | 470,908 | 480,053 |
| Respiratory therapy | 2,160,367 | 2,148,701 | 4,309,068 |
| Physical therapy | 209,427 | 33,504 | 242,931 |
| Occupational therapy | 145,734 | 24,670 | 170,404 |
| Speech therapy | 56,925 | 27,198 | 84,123 |
| Cardiac pulmonary rehabilitation | 473,446 | 891,950 | 1,365,396 |
| Sleep lab | 8,190 | 2,180,728 | 2,188,918 |
| Pharmacy | 3,211,820 | 2,935,215 | 6,147,035 |
| Observation | - | 1,257,396 | 1,257,396 |
| RHC clinics | 871,702 | 5,947,604 | 6,819,306 |
| Home health | - | 394,786 | 394,786 |
| Hospice | - | 175,531 | 175,531 |
| Home medical equipment | - | 2,085,136 | 2,085,136 |
| Orthopedic clinic | 123,812 | 2,199,736 | 2,323,548 |
| Chapman clinic | - | 140,647 | 140,647 |
| Flint Hills Surgical clinic | 142,070 | 739,041 | 881,111 |
| Community wellness | - | 406 | 406 |
| | <u>15,311,826</u> | <u>66,037,871</u> | <u>81,349,697</u> |
| Gross Patient Service Revenue | <u>\$ 28,161,193</u> | <u>\$ 88,282,856</u> | <u>116,444,049</u> |
| Charity care | | | <u>835,106</u> |
| Total patient service revenue | | | <u>115,608,943</u> |
| Less Contractual Adjustments | | | |
| Medicare and Medicaid | | | 46,431,733 |
| Other | | | <u>26,726,562</u> |
| Total contractual adjustments | | | <u>73,158,295</u> |
| Provision for Bad Debts | | | <u>5,193,818</u> |
| Net Patient Service Revenue | | | <u>\$ 37,256,830</u> |

Geary Community Hospital
Other Operating Revenues
Years Ended April 30, 2018 and 2017

Other Operating Revenues

| | <u>2018</u> | <u>2017</u> |
|---------------------|-------------------|-------------------|
| Other Revenue | | |
| Dietary meals | \$ 297,030 | \$ 318,836 |
| Medical records | 7,206 | 16,274 |
| Rental income | 193,294 | 185,024 |
| Miscellaneous | <u>208,066</u> | <u>79,946</u> |
| Total Other Revenue | <u>\$ 705,596</u> | <u>\$ 600,080</u> |

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| | 2018 | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | Salaries | Other | Total |
| Nursing Services | \$ 1,545,065 | \$ 380,287 | \$ 1,925,352 |
| Intensive care | 556,378 | 125,327 | 681,705 |
| Nursery | 341,359 | 4,316 | 345,675 |
| Operating room | 942,735 | 1,818,566 | 2,761,301 |
| Anesthesiology | - | 242,169 | 242,169 |
| Radiology, CT, MRI and Ultrasound | 868,142 | 607,792 | 1,475,934 |
| Nuclear medicine | 58,154 | 84,312 | 142,466 |
| Laboratory | 866,493 | 1,305,870 | 2,172,363 |
| Intravenous therapy | 56,332 | 39,995 | 96,327 |
| Inhalation therapy | 457,429 | 80,400 | 537,829 |
| Physical therapy | - | 67,935 | 67,935 |
| Occupational therapy | - | 34,641 | 34,641 |
| Speech therapy | - | 12,048 | 12,048 |
| Cardiac pulmonary rehabilitation | 165,205 | 1,927 | 167,132 |
| Sleep lab | 119,561 | 33,522 | 153,083 |
| Central supply | 170,170 | 98,587 | 268,757 |
| Pharmacy | 423,327 | 553,288 | 976,615 |
| Emergency room | 999,307 | 1,976,325 | 2,975,632 |
| RHC clinics | 4,489,852 | 1,184,657 | 5,674,509 |
| Home medical equipment | 209,788 | 569,425 | 779,213 |
| Home health | 587 | 18,710 | 19,297 |
| Hospice | - | (169) | (169) |
| Depreciation | - | 2,271,609 | 2,271,609 |
| Employee health and welfare | - | 3,940,696 | 3,940,696 |
| Administrative and general | 2,639,411 | 2,944,037 | 5,583,448 |
| Operation of plant | 445,103 | 1,287,851 | 1,732,954 |
| Laundry and linen | 33,446 | 29,182 | 62,628 |
| Housekeeping | - | 894,038 | 894,038 |
| Dietary | 502 | 1,111,836 | 1,112,338 |
| Dietician | 9,312 | 456 | 9,768 |
| Nursing administrative | 699,408 | 156,038 | 855,446 |
| Foundation | 67,015 | (2,827) | 64,188 |
| Public relations | 95,878 | 135,528 | 231,406 |
| Chapman clinic | 13,086 | 33,746 | 46,832 |
| Flint hills Surgical clinic | 1,025,850 | 96,782 | 1,122,632 |
| Ortho clinic | 151,489 | 927,647 | 1,079,136 |
| Community wellness | 75 | 1,190 | 1,265 |
| Medical arts building | - | 362,969 | 362,969 |
| | <u>\$ 17,450,459</u> | <u>\$ 23,430,708</u> | <u>\$ 40,881,167</u> |

Geary Community Hospital
Operating Expenses
Years Ended April 30, 2018 and 2017

| | 2017 | | Total |
|-----------------------------------|----------------------|----------------------|----------------------|
| | Salaries | Other | |
| Nursing Services | \$ 1,811,834 | \$ 343,220 | \$ 2,155,054 |
| Intensive care | 694,843 | 35,967 | 730,810 |
| Geriatric psych unit | - | 468 | 468 |
| Nursery | 42,326 | 22,007 | 64,333 |
| Operating room | 1,048,988 | 1,291,003 | 2,339,991 |
| Anesthesiology | - | 167,717 | 167,717 |
| Radiology, CT, MRI and Ultrasound | 908,599 | 573,833 | 1,482,432 |
| Nuclear medicine | 59,569 | 98,082 | 157,651 |
| Laboratory | 881,404 | 1,340,217 | 2,221,621 |
| Intravenous therapy | 12,465 | 31,726 | 44,191 |
| Inhalation therapy | 443,399 | 98,363 | 541,762 |
| Physical therapy | - | 63,771 | 63,771 |
| Occupational therapy | - | 44,423 | 44,423 |
| Speech therapy | - | 14,759 | 14,759 |
| Cardiac pulmonary rehabilitation | 219,701 | (1,792) | 217,909 |
| Sleep lab | 131,680 | 35,965 | 167,645 |
| Central supply | 183,755 | 428,993 | 612,748 |
| Pharmacy | 447,799 | 610,650 | 1,058,449 |
| Emergency room | 1,025,468 | 1,441,228 | 2,466,696 |
| Pediatric clinic - RHC | 623,879 | 542,796 | 1,166,675 |
| 4th Floor MAB II clinic - RHC | 1,800,084 | 416,367 | 2,216,451 |
| Frieze clinic - RHC | 441,348 | 122,216 | 563,564 |
| Mace clinic - RHC | 185 | 5,317 | 5,502 |
| Craig clinic - RHC | 319,709 | 89,420 | 409,129 |
| Alphacares clinic - RHC | 574,153 | 199,586 | 773,739 |
| Velasquez clinic - RHC | 538,494 | 132,213 | 670,707 |
| Clinic management - RHC | 305,008 | 608,181 | 913,189 |
| RHC clinics | 4,602,860 | 2,116,096 | 6,718,956 |
| Ambulance | - | 353 | 353 |
| Home medical equipment | 233,455 | 467,063 | 700,518 |
| Home health | 420,159 | 150,753 | 570,912 |
| Hospice | 40,481 | 40,304 | 80,785 |
| Depreciation | - | 2,731,072 | 2,731,072 |
| Employee health and welfare | - | 3,192,464 | 3,192,464 |
| Administrative and general | 2,922,040 | 2,940,193 | 5,862,233 |
| Operation of plant | 540,943 | 1,384,247 | 1,925,190 |
| Laundry and linen | 44,574 | 30,907 | 75,481 |
| Housekeeping | 1,088 | 988,824 | 989,912 |
| Dietary | 5,841 | 1,070,164 | 1,076,005 |
| Dietician | 14,655 | 178 | 14,833 |
| Nursing administrative | 723,987 | 187,374 | 911,361 |
| Foundation | 26,453 | 3,895 | 30,348 |
| Public relations | 94,024 | 167,158 | 261,182 |
| Chapman clinic | 32,798 | 49,517 | 82,315 |
| Flint hills Surgical clinic | 1,213,359 | 239,106 | 1,452,465 |
| Ortho clinic | 156,091 | 964,788 | 1,120,879 |
| Community wellness | 2,584 | 1,381 | 3,965 |
| Medical arts building | 3,312 | 342,898 | 346,210 |
| | <u>\$ 18,990,534</u> | <u>\$ 23,709,335</u> | <u>\$ 42,699,869</u> |