

# **Ness County Hospital District No. 2**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



**Ness County Hospital District No. 2**  
**December 31, 2018 and 2017**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Ness County Hospital District No. 2 as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Ness County Hospital District No. 2's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ness County Hospital District No. 2 as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

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

### ***Supplementary Information***

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

*BKD, LLP*

Wichita, Kansas  
April 19, 2019

**Ness County Hospital District No. 2**  
**Balance Sheets**  
**December 31, 2018 and 2017**

**Assets**

	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash	\$ 591,885	\$ 669,728
Short-term certificates of deposit	129,980	96,032
Restricted cash	328,401	329,446
Patient accounts receivable, net of allowance; 2018 - \$351,000, 2017 - \$391,000	1,267,695	1,037,258
Property taxes receivable	1,516,050	1,392,642
Estimated amounts due from Medicare	52,000	83,182
Due from Medicaid for electronic health records incentive	78,657	112,282
Supplies	186,073	164,940
Prepaid expenses and other	<u>33,720</u>	<u>46,369</u>
Total current assets	4,184,461	3,931,879
<b>Long-term Certificates of Deposit</b>	-	33,718
<b>Capital Assets, Net</b>	3,490,174	3,662,331
<b>Other Assets</b>		
Farm land	<u>156,142</u>	<u>156,142</u>
Total assets	<u>\$ 7,830,777</u>	<u>\$ 7,784,070</u>

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 228,997	\$ 262,800
Accounts payable	354,402	275,873
Accrued expenses	519,856	491,997
Unearned grant revenue	9,450	9,450
	<hr/>	<hr/>
Total current liabilities	1,112,705	1,040,120
<b>Long-term Debt</b>	<hr/>	<hr/>
	1,282,278	1,511,275
	<hr/>	<hr/>
Total liabilities	2,394,983	2,551,395
	<hr/>	<hr/>
<b>Deferred Inflows of Resources - Property Taxes</b>	1,516,050	1,392,642
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	1,978,899	1,888,256
Restricted – expendable for specific operating activities	40,226	42,111
Restricted – expendable for debt service	288,175	287,335
Unrestricted	1,612,444	1,622,331
	<hr/>	<hr/>
Total net position	3,919,744	3,840,033
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,830,777</u>	<u>\$ 7,784,070</u>

**Ness County Hospital District No. 2**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$105,864, 2017 - \$97,568	\$ 8,609,191	\$ 7,689,332
Other	370,226	592,265
Total operating revenues	8,979,417	8,281,597
<b>Operating Expenses</b>		
Salaries and wages	4,629,164	4,343,863
Employee benefits	1,656,463	1,586,434
Purchased services and professional fees	1,525,549	1,218,459
Supplies and other	2,250,154	2,109,096
Depreciation	359,880	414,354
Total operating expenses	10,421,210	9,672,206
<b>Operating Loss</b>	<b>(1,441,793)</b>	<b>(1,390,609)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,451,558	1,543,747
Interest income	3,705	2,482
Interest expense	(51,548)	(70,510)
Noncapital grants and gifts	98,195	70,393
Farm income	6,066	16,047
Farm expense	(172)	(630)
Total nonoperating revenues	1,507,804	1,561,529
<b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b>	66,011	170,920
<b>Capital Grants and Gifts</b>	13,700	56,860
<b>Increase in Net Position</b>	79,711	227,780
<b>Net Position, Beginning of Year</b>	3,840,033	3,612,253
<b>Net Position, End of Year</b>	\$ 3,919,744	\$ 3,840,033

**Ness County Hospital District No. 2**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 8,443,561	\$ 7,914,585
Payments to suppliers and contractors	(3,706,568)	(3,423,046)
Payments to and on behalf of employees	(6,256,858)	(5,906,682)
Other receipts, net	370,226	592,265
Net cash used in operating activities	(1,149,639)	(822,878)
<b>Noncapital Financing Activities</b>		
Property taxes	1,451,558	1,563,516
Noncapital grants and gifts	98,195	70,393
Net cash provided by noncapital financing activities	1,549,753	1,633,909
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	13,700	56,860
Principal paid on long-term debt	(262,800)	(306,922)
Interest paid on long-term debt	(51,548)	(70,510)
Purchase of capital assets	(187,723)	(27,444)
Net cash used in capital and related financing activities	(488,371)	(348,016)
<b>Investing Activities</b>		
Interest income received	3,705	2,482
Purchase of certificates of deposit	(96,032)	(114,750)
Maturities of certificates of deposit	95,802	114,520
Farm income received	6,066	16,047
Farm expenses paid	(172)	(630)
Net cash provided by investing activities	9,369	17,669
<b>Increase (Decrease) in Cash</b>	(78,888)	480,684
<b>Cash, Beginning of Year</b>	999,174	518,490
<b>Cash, End of Year</b>	\$ 920,286	\$ 999,174



**Ness County Hospital District No. 2**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 591,885	\$ 669,728
Restricted cash	328,401	329,446
Total cash	\$ 920,286	\$ 999,174
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (1,441,793)	\$ (1,390,609)
Depreciation	359,880	414,354
Changes in operating assets and liabilities		
Patient accounts receivable, net	(230,437)	220,717
Estimated amounts due from and to Medicare and Medicaid	64,807	4,536
Accounts payable and accrued expenses	106,388	(144,884)
Other assets and liabilities	(8,484)	73,008
Net cash used in operating activities	\$ (1,149,639)	\$ (822,878)

# **Ness County Hospital District No. 2**

## **Notes to Financial Statements**

### **December 31, 2018 and 2017**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations and Reporting Entity***

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

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

##### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

##### ***Use of Estimates***

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

##### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, there were no cash equivalents.

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Certificates of Deposit***

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

***Property Taxes***

The Hospital received approximately 14% in 2018 and 16% in 2017 of its financial support from property taxes. One hundred percent of these funds were used to support operations.

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

***Risk Management***

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

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

# **Ness County Hospital District No. 2**

## **Notes to Financial Statements**

### **December 31, 2018 and 2017**

#### ***Capital Asset Impairment***

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

#### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

#### ***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The costs of charity care provided under the Hospital's charity care policy were \$75,568 and \$42,167 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

***Income Taxes***

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recorded revenue under the Medicaid EHR program of \$88,016 and \$299,419 for the years ended December 31, 2018 and 2017, respectively, which is included in other operating revenue in the statements of revenues, expenses and changes in net position.

# Ness County Hospital District No. 2

## Notes to Financial Statements

### December 31, 2018 and 2017

#### **Note 2: Net Patient Service Revenue**

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

*Medicare.* The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted on July 1 and January 1 using an average of the three previously filed annual cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 63% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

#### **Note 3: Deposits**

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

At December 31, 2018 and 2017, none of the Hospital's bank balances of \$928,712 and \$993,898, respectively, were exposed to custodial credit risk.

**Summary of Carrying Values**

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits – Hospital	\$ 903,429	\$ 943,896
Petty cash	575	345
	<u>904,004</u>	<u>944,241</u>
Deposits – Foundation	146,262	184,683
	<u>\$ 1,050,266</u>	<u>\$ 1,128,924</u>
 Included in the following balance sheet captions:		
Cash	\$ 591,885	\$ 669,728
Short-term certificates of deposit	129,980	96,032
Restricted cash	328,401	329,446
Long-term certificates of deposit	-	33,718
	<u>\$ 1,050,266</u>	<u>\$ 1,128,924</u>

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 567,027	\$ 336,954
Medicaid	120,325	176,815
Blue Cross	217,119	193,975
Other third-party payers	227,583	190,221
Patients	486,641	530,293
	<u>1,618,695</u>	<u>1,428,258</u>
Less allowance for uncollectible accounts	351,000	391,000
	<u>\$ 1,267,695</u>	<u>\$ 1,037,258</u>

## Ness County Hospital District No. 2

### Notes to Financial Statements

December 31, 2018 and 2017

#### Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,904,500	5,873	-	-	4,910,373
Fixed equipment	3,486,299	35,358	-	-	3,521,657
Major moveable equipment	2,352,180	146,492	(55,932)	-	2,442,740
	<u>11,084,619</u>	<u>187,723</u>	<u>(55,932)</u>	<u>-</u>	<u>11,216,410</u>
Less accumulated depreciation					
Land improvements	209,086	1,466	-	-	210,552
Buildings	3,765,482	97,770	-	-	3,863,252
Fixed equipment	1,226,615	198,919	-	-	1,425,534
Major moveable equipment	2,221,105	61,725	(55,932)	-	2,226,898
	<u>7,422,288</u>	<u>359,880</u>	<u>(55,932)</u>	<u>-</u>	<u>7,726,236</u>
Capital Assets, Net	<u>\$3,662,331</u>	<u>\$ (172,157)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,490,174</u>
	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	-	-	-	226,253
Buildings	4,904,500	-	-	-	4,904,500
Fixed equipment	3,486,299	-	-	-	3,486,299
Major moveable equipment	2,324,736	27,444	-	-	2,352,180
	<u>11,057,175</u>	<u>27,444</u>	<u>-</u>	<u>-</u>	<u>11,084,619</u>
Less accumulated depreciation					
Land improvements	207,607	1,479	-	-	209,086
Buildings	3,660,494	104,988	-	-	3,765,482
Fixed equipment	1,025,028	201,587	-	-	1,226,615
Major moveable equipment	2,114,805	106,300	-	-	2,221,105
	<u>7,007,934</u>	<u>414,354</u>	<u>-</u>	<u>-</u>	<u>7,422,288</u>
Capital Assets, Net	<u>\$4,049,241</u>	<u>\$ (386,910)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,662,331</u>



**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 6: Accounts Payable and Accrued Expenses**

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

	<b>2018</b>	<b>2017</b>
Payable to suppliers and contractors	\$ 410,064	\$ 340,134
Payable to employees (including payroll taxes and benefits)	464,194	427,736
	<b>\$ 874,258</b>	<b>\$ 767,870</b>

**Note 7: Medical Malpractice Coverage and Claims**

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

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

**Note 8: Long-term Debt**

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

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Capital lease obligations	\$ 1,774,075	\$ -	\$ 262,800	\$ 1,511,275	\$ 228,997
Total long-term debt	\$ 1,774,075	\$ -	\$ 262,800	\$ 1,511,275	\$ 228,997
	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Capital lease obligations	\$ 2,080,997	\$ -	\$ 306,922	\$ 1,774,075	\$ 262,800
Total long-term debt	\$ 2,080,997	\$ -	\$ 306,922	\$ 1,774,075	\$ 262,800

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2018 and 2017 follows:

	<b>2018</b>	<b>2017</b>
Equipment	\$ 2,518,289	\$ 3,117,856
Accumulated depreciation	727,506	1,100,784
	<b>\$ 1,790,783</b>	<b>\$ 2,017,072</b>

The following is a schedule by year of future minimum lease payments under the capital lease including interest at 3.75% together with the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,	
2019	\$ 286,457
2020	286,457
2021	286,457
2022	286,457
2023	286,457
2024	286,459
Total minimum lease payments	1,718,744
Less amount representing interest	207,469
Present value of future minimum lease payments	<b>\$ 1,511,275</b>

**Note 9: Pension Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2018 and 2017, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated \$197,491 and \$149,200 during 2018 and \$177,157 and \$119,517 during 2017, respectively.

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 10: Assets Held in Trust**

The Hospital is a contingent income beneficiary of a trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trust amounted to \$15,115 in 2018 and \$17,527 in 2017.

**Note 11: Condensed Combining Information**

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2018 and 2017:

	<b>December 31, 2018</b>		
	<b>Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Assets</b>			
Current assets	\$ 4,038,199	\$ 146,262	\$ 4,184,461
Capital assets, net	3,490,174	-	3,490,174
Other assets (farm land)	-	156,142	156,142
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 7,528,373</u>	<u>\$ 302,404</u>	<u>\$ 7,830,777</u>
<b>Liabilities</b>			
Current liabilities	\$ 1,112,705	\$ -	\$ 1,112,705
Noncurrent liabilities	1,282,278	-	1,282,278
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>2,394,983</u>	<u>-</u>	<u>2,394,983</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>1,516,050</u>	<u>-</u>	<u>1,516,050</u>
<b>Net Position</b>			
Net investment in capital assets	1,822,757	156,142	1,978,899
Restricted – expendable for specific operating activities	40,226	-	40,226
Restricted – expendable for debt service	288,175	-	288,175
Unrestricted	1,466,182	146,262	1,612,444
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net position	<u>3,617,340</u>	<u>302,404</u>	<u>3,919,744</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,528,373</u>	<u>\$ 302,404</u>	<u>\$ 7,830,777</u>

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

The following tables include condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2018 and 2017:

	<b>December 31, 2018</b>		
	<b>Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 8,609,191	\$ -	\$ 8,609,191
Other	367,582	2,644	370,226
Total operating revenues	<u>8,976,773</u>	<u>2,644</u>	<u>8,979,417</u>
<b>Operating Expenses</b>			
Other operating expenses	10,011,435	49,895	10,061,330
Depreciation	359,880	-	359,880
Total operating expenses	<u>10,371,315</u>	<u>49,895</u>	<u>10,421,210</u>
<b>Operating Loss</b>	<u>(1,394,542)</u>	<u>(47,251)</u>	<u>(1,441,793)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	1,451,558	-	1,451,558
Interest income	2,959	746	3,705
Interest expense	(51,548)	-	(51,548)
Noncapital grants and gifts	98,195	-	98,195
Farm income	-	6,066	6,066
Farm expense	-	(172)	(172)
Total nonoperating revenues	<u>1,501,164</u>	<u>6,640</u>	<u>1,507,804</u>
<b>Excess (Deficiency) of Revenues Over Expenses     Before Capital Grants and Gifts</b>	106,622	(40,611)	66,011
<b>Capital Grants and Gifts</b>	<u>11,510</u>	<u>2,190</u>	<u>13,700</u>
<b>Increase (Decrease) in Net Position</b>	118,132	(38,421)	79,711
<b>Net Position, Beginning of Year</b>	<u>3,499,208</u>	<u>340,825</u>	<u>3,840,033</u>
<b>Net Position, End of Year</b>	<u>\$ 3,617,340</u>	<u>\$ 302,404</u>	<u>\$ 3,919,744</u>

# Ness County Hospital District No. 2

## Notes to Financial Statements

December 31, 2018 and 2017

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

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

The following tables include condensed combining statement of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2018 and 2017:

	<b>December 31, 2018</b>		
	<b>Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Net Cash Used in Operating Activities</b>	\$ (1,102,388)	\$ (47,251)	\$ (1,149,639)
<b>Net Cash Provided by Noncapital Financing Activities</b>	1,549,753	-	1,549,753
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	(490,561)	2,190	(488,371)
<b>Net Cash Provided by Investing Activities</b>	2,499	6,870	9,369
<b>Decrease in Cash</b>	(40,697)	(38,191)	(78,888)
<b>Cash, Beginning of Year</b>	848,209	150,965	999,174
<b>Cash, End of Year</b>	<u>\$ 807,512</u>	<u>\$ 112,774</u>	<u>\$ 920,286</u>

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

**Note 12: Future Change in Accounting Principle**

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings.

**Ness County Hospital District No. 2**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.



## **Supplementary Information**

**Ness County Hospital District No. 2**  
**Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget**  
**December 31, 2018**

	<b>Actual</b>	<b>Tax Budget</b>	<b>Actual Over (Under) Budget</b>
Net patient service revenue	\$ 8,378,754	\$ 8,206,120	\$ 172,634
Other revenue	<u>370,226</u>	<u>405,000</u>	<u>(34,774)</u>
Total operating revenue	<u>8,748,980</u>	<u>8,611,120</u>	<u>137,860</u>
Operating expenses	10,383,367	10,622,299	(238,932)
Capital expenditures	<u>187,723</u>	<u>100,000</u>	<u>87,723</u>
Total operating expenses	<u>10,571,090</u>	<u>10,722,299</u>	<u>(151,209)</u>
Operating loss	<u>(1,822,110)</u>	<u>(2,111,179)</u>	<u>289,069</u>
Property tax revenue	1,451,558	1,524,745	(73,187)
Other nonoperating revenues	<u>101,728</u>	<u>101,160</u>	<u>568</u>
Total nonoperating revenues	<u>1,553,286</u>	<u>1,625,905</u>	<u>(72,619)</u>
Deficiency of revenue over expenses	<u>\$ (268,824)</u>	<u>\$ (485,274)</u>	<u>\$ 216,450</u>

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