

**Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas**

Independent Auditor's Report and Financial Statements

September 30, 2019 and 2018

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
September 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Board of Trustees of Ottawa County Health Center
Minneapolis, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Ottawa County Health Center, a component unit of Ottawa County, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Board of Trustees of Ottawa County Health Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Trustees of Ottawa County Health Center as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The Board of Trustees has omitted the management's discussion and analysis information 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, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
December 10, 2019

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Balance Sheets
September 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 842,528	\$ 773,132
Other	303	143
	842,831	773,275
Endowment	118,873	117,621
Capital Assets, Net	1,550,260	1,654,622
Total assets	\$ 2,511,964	\$ 2,545,518
 Net Position		
Investment in capital assets	\$ 1,550,260	\$ 1,654,622
Restricted nonexpendable permanent endowments	101,360	101,360
Unrestricted	860,344	789,536
Total net position	\$ 2,511,964	\$ 2,545,518

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating Revenues		
Noncapital appropriations - Ottawa County	\$ 539,495	\$ 480,660
Rent	97,080	97,080
Total operating revenues	636,575	577,740
Operating Expenses		
Depreciation	104,362	104,362
Other	3,126	1,420
Total operating expenses	107,488	105,782
Operating Income	529,087	471,958
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	6,835	107,177
Investment income	5,837	10,963
Contributions to Hospital for operations	(413,359)	(114,401)
Total nonoperating (revenues) expenses	(400,687)	3,739
Income Before Contributions to Hospital for Property and Equipment	128,400	475,697
Contributions to Hospital for Property and Equipment	(161,954)	(465,780)
Increase (Decrease) in Net Position	(33,554)	9,917
Net Position, Beginning of Year	2,545,518	2,535,601
Net Position, End of Year	\$ 2,511,964	\$ 2,545,518

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Receipts from Ottawa County	\$ 539,495	\$ 480,660
Other receipts and payments, net	93,954	95,660
Net cash provided by operating activities	633,449	576,320
Cash Flows From Noncapital Financing Activities		
Noncapital grants and gifts	6,835	107,177
Contribution to Hospital for operations	(413,359)	(114,401)
Net cash used in noncapital financing activities	(406,524)	(7,224)
Cash Flows From Capital and Related Financing Activities		
Contributions to Hospital for property and equipment	(161,954)	(465,780)
Net cash used in capital and related financing activities	(161,954)	(465,780)
Cash Flows From Investing Activities		
Interest in investments	4,425	3,295
Net cash provided by investing activities	4,425	3,295
Increase in Cash	69,396	106,611
Cash, Beginning of Year	773,132	666,521
Cash, End of Year	\$ 842,528	\$ 773,132
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 529,087	\$ 471,958
Depreciation expense	104,362	104,362
Net cash provided by operating activities	\$ 633,449	\$ 576,320

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
September 30, 2019 and 2018

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

Nature of Operations and Reporting Entity

The Board of Trustees of Ottawa County Health Center (Board of Trustees) was organized by the County Commissioners of Ottawa County to operate a governmental hospital and to control the use of noncapital appropriations. The Board of Trustees is appointed by the County Commissioners of Ottawa County. The Board of Trustees is considered to be a component unit of Ottawa County.

Great Plains of Ottawa County, Inc. (GPOC/Hospital) is located in Minneapolis, Kansas and provides acute, swing-bed, head trauma care and long-term care services under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. seq. with the Board of Trustees (*Note 5*). The operations of the Hospital are reported on separately from the Board of Trustees due to this lease arrangement.

Basis of Accounting and Presentation

The financial statements of the Board of Trustees have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transactions take place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include noncapital appropriations and exchange transactions. Noncapital grants and gifts, investment income (loss) and contributions to Hospital for operations are included in nonoperating revenues (expenses). The Board of Trustees 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 Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents.

Board of Trustees of Ottawa County Health Center
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September 30, 2019 and 2018

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. The following estimated useful lives are being used by the Board of Trustees:

Land improvements	15 years
Buildings	10 – 30 years

Capital Asset Impairment

The Board of Trustees evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended September 30, 2019 and 2018.

Noncapital Appropriations – Ottawa County

The Board of Trustees receives noncapital appropriations from Ottawa County property tax levy. Property taxes are assessed on a calendar year basis and are received beginning in January 1 of each year. Revenue from noncapital appropriations is recognized in full in the year for which use is first permitted.

Net Position

Net position of the Board of Trustees is classified in three components on its balance sheets.

- Investment in capital assets consists of capital assets net of accumulated depreciation.
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Board of Trustees, such as permanent endowments.
- Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets or restricted net position.

Board of Trustees of Ottawa County Health Center
A Component Unit of Ottawa County, Kansas
Notes to Financial Statements
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Income Taxes

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

Revision

A revision has been made to the 2018 financial statements related to investment in capital assets net position and unrestricted net position. The investment in capital assets net position of \$1,654,622 was included in the unrestricted net position in the 2018 financial statements. This revision did not impact total net position.

Note 2: 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 Board of Trustees' 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.

As of September 30, 2019 and 2018, respectively, \$563,564 and \$497,585 of the Board of Trustees' bank balances of \$842,528 and \$773,132 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution's trust department in other than the Board of Trustees' name	<u>\$ 563,564</u>	<u>\$ 497,585</u>

Board of Trustees of Ottawa County Health Center
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Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	\$ 842,528	\$ 773,132
Included in the following balance sheet captions		
Cash	\$ 842,528	\$ 773,132

Note 3: Endowment and Restricted Net Position

The endowment is the Board of Trustees' interest in a trust at a local bank established for the benefit of the Hospital. The principal is invested in debt and equity securities which are reported and measured at fair market value using the net asset value per share and have not been classified in the fair value hierarchy. Kansas law permits the local bank to authorize for expenditure the net appreciation of the investments in the endowment unless the contributor provides for specific instructions. The contributor of the endowment has instructed that distributions from the trust to the Board of Trustees by the local bank are unrestricted and can only be made from the investment income generated by the trust. The principal balance in the trust is restricted to investment in perpetuity.

The local bank authorizes distributions from the endowment as available. Net appreciation of \$1,252 and \$7,566 at September 30, 2019 and 2018, respectively, is included in the accompanying statements of revenues, expenses and changes in net position.

Board of Trustees of Ottawa County Health Center
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Notes to Financial Statements
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Note 4: Capital Assets

Capital assets activity for the years ended September 30 was:

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 95,855	\$ -	\$ -	\$ 95,855
Buildings	1,767,491	-	-	1,767,491
	<u>1,863,346</u>	<u>-</u>	<u>-</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	(12,781)	(6,390)	-	(19,171)
Buildings	(195,943)	(97,972)	-	(293,915)
	<u>(208,724)</u>	<u>(104,362)</u>	<u>-</u>	<u>(313,086)</u>
Capital Assets, Net	<u>\$ 1,654,622</u>	<u>\$ (104,362)</u>	<u>\$ -</u>	<u>\$ 1,550,260</u>
	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 95,855	\$ -	\$ -	\$ 95,855
Buildings	1,767,491	-	-	1,767,491
	<u>1,863,346</u>	<u>-</u>	<u>-</u>	<u>1,863,346</u>
Less accumulated depreciation				
Land improvements	(6,391)	(6,390)	-	(12,781)
Buildings	(97,971)	(97,972)	-	(195,943)
	<u>(104,362)</u>	<u>(104,362)</u>	<u>-</u>	<u>(208,724)</u>
Capital Assets, Net	<u>\$ 1,758,984</u>	<u>\$ (104,362)</u>	<u>\$ -</u>	<u>\$ 1,654,622</u>

Board of Trustees of Ottawa County Health Center
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Note 5: Lease and Management Agreement

The Board of Trustees controls facilities, including buildings, as well as equipment and other assets, which are owned by Ottawa County, Kansas, and leased to GPOC by the Board of Trustees. The lease agreement provides that GPOC will assume and continue the operations of the hospital and maintain all property and equipment in good operating condition. The original lease term was for a period of 5 years through December 18, 2005, with two renewal option periods of five years each, which ended December 18, 2015. GPOC extended the lease agreement through additional renewal options. The Board of Trustees leases the hospital facilities to GPOC for \$1. In connection with this lease, Great Plains Health Alliance, Inc. (GPHA), the sole member of GPOC, has a management agreement with GPOC. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPOC upon commencement of the original term, December 18, 2000. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the Board of Trustees.

Note 6: Future Change in Accounting Principle

Leases

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. 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. 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 Board of Trustees is evaluating the impact the statement will have on the financial statements.