Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

BKD
CPAs & Advisors

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
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Contents

BKD
CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
Logan County Hospital
d/b/a Logan County Health Services
Oakley, Kansas

We have audited the accompanying financial statements of Logan County Hospital d/b/a Logan County Health Services (the Hospital), a component unit of Logan County, Kansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Logan County Hospital d/b/a Logan County Health Services as of December 31, 2017 and 2016, and the respective 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

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, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
October 17, 2018

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Balance Sheets
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash	$ 103,970	$ 200,006
Patient accounts receivable, net of allowance;		
2017 - $876,293, 2016 - $750,844	1,901,864	2,460,392
Estimated amounts due from third-party payers	291,992	227,265
Supplies	258,531	256,198
Taxes receivable	50,854	166,743
Prepaid expenses and other	101,981	20,212
Total current assets	2,709,192	3,330,816
Noncurrent Cash	831,721	940,249
Capital Assets, Net	4,207,686	5,028,459
Total assets	7,748,599	9,299,524
Deferred Outflows of Resources - Pension	908,268	1,140,772
Total assets and deferred outflows of resources	$ 8,656,867	$ 10,440,296

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Outstanding checks in excess of bank balance	$ -	$ 97,324
Current maturities of long-term debt	216,169	478,636
Accounts payable	335,225	305,687
Accrued salaries and benefits	517,067	421,670
Accrued compensated absences	371,672	393,032
Other accrued liabilities	-	2,236
Total current liabilities	1,440,133	1,698,585
Long-term Debt	329,090	894,763
Net Pension Liability	4,895,751	5,180,739
Total liabilities	6,664,974	7,774,087
Deferred Inflows of Resources - Pension	819,284	929,182
Net Position (Deficit)		
Net investment in capital assets	3,662,427	3,655,060
Unrestricted deficit	(2,489,818)	(1,918,033)
Total net position	1,172,609	1,737,027
Total liabilities, deferred inflows of resources and net position	$ 8,656,867	$ 10,440,296

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - $469,307, 2016 – $246,897	$ 10,493,402	$ 11,226,355
Other	1,427,215	1,290,323
Total operating revenues	11,920,617	12,516,678
Operating Expenses		
Salaries and wages	6,746,466	6,075,264
Employee benefits	1,834,958	1,566,464
Supplies and other	3,973,705	4,555,290
Depreciation	710,853	727,790
Total operating expenses	13,265,982	12,924,808
Operating Loss	(1,345,365)	(408,130)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Logan County	561,499	484,593
Interest income	22,021	15,833
Interest expense	(15,930)	(28,779)
Gain on disposal of capital assets	69,936	300
Noncapital grants and gifts	143,421	126,891
Total nonoperating revenues	780,947	598,838
Increase (Decrease) in Net Position	(564,418)	190,708
Net Position, Beginning of Year	1,737,027	1,546,319
Net Position, End of Year	$ 1,172,609	$ 1,737,027

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 10,987,203	$ 11,662,801
Payments to suppliers and contractors	(3,912,380)	(4,746,796)
Payments to employees	(8,672,005)	(7,641,493)
Other receipts, net	1,427,215	1,290,323
Net cash provided by (used in) operating activities	(169,967)	564,835
Noncapital Financing Activities		
Increase (decrease) in outstanding checks in excess of bank balance	(97,324)	43,777
Noncapital appropriations - Logan County	561,499	484,593
Noncapital grants and gifts	143,421	126,891
Net cash provided by noncapital financing activities	607,596	655,261
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	-	550,000
Principal paid on long-term debt	(496,813)	(734,417)
Interest paid on long-term debt	(15,930)	(28,779)
Proceeds from sale of capital assets	-	300
Purchases of capital assets	(151,471)	(153,287)
Net cash used in capital and related financing activities	(664,214)	(366,183)
Investing Activities		
Interest income received	22,021	15,833
Advances to physicians	-	2,333
Net cash provided by investing activities	22,021	18,166
Increase (Decrease) in Cash	(204,564)	872,079
Cash, Beginning of Year	1,140,255	268,176
Cash, End of Year	$ 935,691	$ 1,140,255

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Cash to the Balance Sheets		
Cash	$ 103,970	$ 200,006
Noncurrent cash	831,721	940,249
	$ 935,691	$ 1,140,255
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,345,365)	$ (408,130)
Depreciation	710,853	727,790
Provision for uncollectible accounts	469,307	246,897
Changes in operating assets and liabilities		
Patient accounts receivable	89,221	(519,498)
Estimated amounts due from and to third-party payers	(64,727)	709,047
Taxes receivable	115,889	(166,743)
Supplies	(2,333)	(34,478)
Prepaid expenses and other	(81,769)	23,143
Accounts payable and accrued expenses	101,339	147,223
Net pension liability	(284,988)	(104,526)
Deferred outflows of resources	232,504	(555,853)
Deferred inflows of resources	(109,898)	499,963
Net cash provided by (used in) operating activities	$ (169,967)	$ 564,835
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	$ 167,215	$ 10,300
During 2017, the Hospital cancelled a capital lease for equipment and converted the lease to an operating lease. The following assets and liabilities were written off resulting in a net gain on disposal:		
Capital assets, net	$ 428,606	
Capital lease obligations	498,542	
Gain on disposal of capital assets	$ (69,936)	

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Logan County Hospital (the Hospital) is an acute care hospital located in Oakley, Kansas. The Hospital is doing business as Logan County Health Services. The Hospital is a component unit of Logan County, Kansas (Logan County). The Hospital is governed by the Board of Trustees, which are appointed by the Board of County Commissioners of Logan County. The Hospital primarily earns revenues by providing inpatient, outpatient, long-term care and emergency care services to patients in the Logan County area.

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 and outflows 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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment 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, liabilities and deferred inflows and outflows of resources 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.

Noncurrent Cash

Noncurrent cash include assets consisting of cash set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its direction subsequently use for other purposes.

Noncapital Appropriations – Logan County

The Hospital received approximately 5% and 4% of its financial support from proceeds of noncapital appropriations for property taxes during 2017 and 2016, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in 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; 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 average cost method.

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 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	8 – 20 years
Buildings	5 – 40 years
Equipment	3 – 20 years

Compensated Absences

Hospital policies permit most employees to accumulate paid time off and extended 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 paid time off benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Extended 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.

Deferred Outflows of Resources

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

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

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position (Deficit)

Net position (deficit) of the Hospital is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balance of borrowings used to finance the purchase or construction of those assets. Unrestricted net position (deficit) is the remaining net position (deficit) that does not meet the definition of net investment in capital assets.

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.

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.

Income Taxes

As an essential government function of the County, 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.

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 (EHR) technology. Critical access hospitals (CAHs) 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 has recognized EHR incentive payment revenue of $51,150 and $81,917, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended December 31, 2017 and 2016, respectively.

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 CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2025.

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 at a prospective rate, with annual cost reports submitted to the Medicaid program. Through June 30, 2016, Rates were computed using an average of the 2010, 2011 and 2012 cost reports. Rates are adjusted twice annually on July 1 and January 1 for changes in the Medicaid resident case mix index (CMI) using the simple average of the CMI from the two preceding quarters. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively. Effective July 1, 2016, rates are computed using an average of the 2013, 2014 and 2015 cost reports. Each year's cost data is inflation adjusted from the mid-point of that year to June 30, 2016. Effective July 1, 2017, rates are comprised using an average of the 2014, 2015 and 2016 cost reports. Due to certain financial and clinical criteria, the Hospital also receives Medicaid Disproportionate Share (DSH) funding. DSH payments received were $269,441 and $190,316 in 2017 and 2016, respectively.

Approximately 57% and 48% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, 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

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.

At December 31, 2017 and 2016, respectively, $608,567 and $830,395 of the Hospital's bank balances of $1,076,394 and $1,155,192 were exposed to custodial credit risk as follows:

	2017	2016
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 608,567	$ 830,695

Summary of Carrying Values

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

	2017	2016
Carrying value		
Deposits	$ 935,691	$ 1,140,255
Included in the following balance sheet captions		
Cash	$ 103,970	$ 200,006
Noncurrent cash	831,721	940,249
	$ 935,691	$ 1,140,255

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:

	2017	2016
Medicare	$ 682,043	$ 1,086,967
Medicaid	16,777	138,344
Other third-party payers	535,898	1,008,293
Patients	1,543,439	977,632
	2,778,157	3,211,236
Less allowance for uncollectible accounts	876,293	750,844
	$ 1,901,864	$ 2,460,392

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 53,181	$ -	$ -	$ -	$ 53,181
Land improvements	74,230	-	-	-	74,230
Buildings	6,635,036	6,212	-	-	6,641,248
Equipment	4,524,018	312,474	(789,793)	-	4,046,699
	11,286,465	318,686	(789,793)	-	10,815,358
Less accumulated depreciation					
Land improvements	74,230	-	-	-	74,230
Buildings	3,072,288	273,449	-	-	3,345,737
Equipment	3,111,488	437,404	(361,187)	-	3,187,705
	6,258,006	710,853	(361,187)	-	6,607,672
Capital assets, net	$ 5,028,459	$ (392,167)	$ (428,606)	$ -	$ 4,207,686

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 53,181	$ -	$ -	$ -	$ 53,181
Land improvements	74,230	-	-	-	74,230
Buildings	6,623,140	11,896	-	-	6,635,036
Equipment	4,375,830	151,691	(3,503)	-	4,524,018
	11,126,381	163,587	(3,503)	-	11,286,465
Less accumulated depreciation					
Land improvements	74,230	-	-	-	74,230
Buildings	2,788,499	283,789	-	-	3,072,288
Equipment	2,670,990	444,001	(3,503)	-	3,111,488
	5,533,719	727,790	(3,503)	-	6,258,006
Capital assets, net	$ 5,592,662	$ (564,203)	$ -	$ -	$ 5,028,459

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance 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 near term.

Note 7: Long-Term Obligations

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

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable	$ 300,016	$ -	$ 185,019	$ 114,997	$ 60,000
Capital lease obligations	1,073,383	167,215	810,336	430,262	156,169
	$ 1,373,399	$ 167,215	$ 995,355	$ 545,259	$ 216,169

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable	$ 194,649	$ 550,000	$ 444,633	$ 300,016	$ 127,108
Capital lease obligations	1,352,867	10,300	289,784	1,073,383	351,528
	$ 1,547,516	$ 560,300	$ 734,417	$ 1,373,399	$ 478,636

Notes Payable

Notes payable are due November 1, 2019, with principal payable annually. The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	$ 60,000	$ 60,000	$ -
2019	54,997	54,997	-
	$ 114,997	$ 114,997	$ -

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2017 and 2016, totaled $756,209 and $1,670,731, respectively, net of accumulated depreciation of $246,744 and $$679,229, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 1.5% to 6.2% together with the present value of the future minimum lease payments as of December 31, 2017:

Year Ending December 31,	
2018	$ 156,169
2019	117,390
2020	92,884
2021	63,552
2022	32,491
Total minimum lease payments	462,486
Less amounts representing interest	32,224
Present value of minimum lease payments	$ 430,262

Note 8: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) plan a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. The KPERS 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, Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS is intended to be a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Benefit provisions are contained in the plan document and were established and can be amended by action of KPERS's governing body. The KPERS issues a publicly available financial report that can be obtained 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

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. The plan 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 10 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 December 31, 2017 and 2016, was 8.46% and 9.18% of annual payroll, respectively. 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 pensions for the years ended December 31, 2017 and 2016, were $540,878 and $535,679, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, the Hospital reported a liability of $4,895,751 and 5,180,739, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, respectively, rolled forward to June 30, 2017 and 2016, respectively. 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 0.337998%, which was an increase of 0.003115% from its proportion measured as of June 30, 2016, of 0.334883%. At June 30, 2015, the proportion was 0.402520%.

For the years ended December 31, 2017 and 2016, the Hospital recognized pension expense of $380,937 and $382,896, respectively. At December 31, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 23,679	$ 169,285
Net difference between projected and actual earnings on pension plan investments	153,571	-
Changes of assumptions	263,656	35,800
Changes in proportion	185,282	614,199
Hospital's contributions subsequent to the measurement date	282,080	-
Total	$ 908,268	$ 819,284

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 30,069	$ 93,507
Net difference between projected and actual earnings on pension plan investments	611,999	-
Changes of assumptions	-	48,463
Changes in proportion	229,306	787,212
Hospital's contributions subsequent to the measurement date	269,398	-
Total	$ 1,140,772	$ 929,182

At December 31, 2017, the Hospital reported $282,080 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 December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

2018	$ (96,841)
2019	80,663
2020	(52,743)
2021	(142,513)
2022	18,338
	$ (193,096)

Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2016	2015
Price inflation	2.75%	3.00%
Wage inflation	3.50%	4.00%
Salary increases, including inflation	3.5% to 12%	4% to 16%
Investment rate of return, net of pension plan investment expense, including inflation	7.75%	8.00%

The mortality rates used in the December 31, 2016, valuation were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The mortality rates used in the December, 31, 2015, valuation were based on the RP-2000 Health Annuitant Table for males and females, 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 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:

	2017		2016	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.80%	47%	6.80%
Fixed income	13%	1.25%	13%	1.25%
Yield driven	8%	6.55%	8%	6.55%
Real return	11%	1.71%	11%	1.71%
Real estate	11%	5.05%	11%	5.05%
Alternatives	8%	9.85%	8%	9.85%
Short-term investments	2%	-0.25%	2%	-0.25%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the years ended June 30, 2017 and 2016, respectively. 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%. 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 as of December 31, 2017:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	$ 7,050,952	$ 4,895,751	$ 3,079,001

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: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Required Supplementary Information

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	2017 *	2016 *	2015 *	2014 *
Hospital's proportion of the net pension liability	0.337998%	0.334883%	0.402500%	0.400400%
Hospital's proportionate share of the net pension liability	$ 4,895,751	$ 5,180,739	$ 5,285,265	$ 4,928,015
Hospital's covered-employee payroll	$ 5,993,175	$ 5,739,620	$ 6,737,786	$ 6,614,103
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	81.69%	90.26%	78.44%	74.51%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%

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

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

Logan County Hospital
d/b/a Logan County Health Services
A Component Unit of Logan County, Kansas
Schedule of the Hospital's Pension Contributions
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	2017 *	2016 *	2015 *	2014 *
Contractually required contribution	$ 540,878	$ 535,679	$ 571,285	$ 601,098
Contribution in relation to the contractually required contribution	540,878	535,679	571,285	601,098
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	$ 6,393,347	$ 5,761,433	$ 6,255,744	$ 6,805,805
Contributions as a percentage of covered-employee payroll	8.46%	9.30%	9.13%	8.83%

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

*The amounts presented for each fiscal year are as of the fiscal year-end (December 31 of the year reported).