

Kiowa District Hospital

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Kiowa District Hospital

December 31, 2017 and 2016

Contents

Independent Auditor's Report.....	1
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Financial Statements

Balance Sheets.....	3
Statements of Financial Position – Friends of Kiowa District Hospital and Manor Foundation, Inc.	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Activities – Friends of Kiowa District Hospital and Manor Foundation, Inc.....	6
Statements of Cash Flows	7
Statements of Cash Flows – Friends of Kiowa District Hospital and Manor Foundation, Inc.....	9
Notes to Financial Statements	10

Supplementary Information

Net Patient Service Revenues.....	22
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget.....	23

Independent Auditor's Report

Board of Directors
Kiowa District Hospital
Kiowa, Kansas

We have audited the accompanying financial statements of Kiowa District Hospital (Hospital), and its discretely presented component unit 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kiowa District Hospital and its discretely presented component unit as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, economic 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 that collectively comprise the Hospital's basic financial statements. The Net Patient Service Revenues and Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents are 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
May 23, 2018

Kiowa District Hospital
Balance Sheets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 487,332	\$ 1,168,491
Patient accounts receivable, net of allowance; 2017 - \$344,000, 2016 - \$303,000	1,347,098	409,470
Estimated amounts due from third-party payers	-	245,000
Supplies	192,643	191,566
Prepaid expenses and other	52,374	48,400
Property taxes receivable	<u>1,061,068</u>	<u>996,803</u>
Total current assets	<u>3,140,515</u>	<u>3,059,730</u>
Capital Assets, Net	<u>7,731,525</u>	<u>8,252,039</u>
Total assets	<u><u>\$ 10,872,040</u></u>	<u><u>\$ 11,311,769</u></u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 257,999	\$ 247,387
Accounts payable	623,936	142,903
Accrued expenses	274,720	353,205
Estimated amounts due to third-party payers	<u>200,000</u>	<u>-</u>
Total current liabilities	1,356,655	743,495
Long-term Debt	<u>2,822,036</u>	<u>3,080,055</u>
Total liabilities	<u>4,178,691</u>	<u>3,823,550</u>
Deferred Inflows of Resources - Property Taxes	<u>1,061,068</u>	<u>996,803</u>
Net Position		
Net investment in capital assets	4,651,490	4,924,597
Unrestricted	<u>980,791</u>	<u>1,566,819</u>
Total net position	<u>5,632,281</u>	<u>6,491,416</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 10,872,040</u></u>	<u><u>\$ 11,311,769</u></u>

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash	<u>\$ 244,703</u>	<u>\$ 175,484</u>
Total assets	<u><u>\$ 244,703</u></u>	<u><u>\$ 175,484</u></u>
 Net Assets		
Temporarily restricted	<u>\$ 244,703</u>	<u>\$ 175,484</u>
Total net assets	<u><u>\$ 244,703</u></u>	<u><u>\$ 175,484</u></u>

Kiowa District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2017 - \$105,660, 2016 - \$109,218	\$ 6,318,408	\$ 5,706,523
Other	<u>397,041</u>	<u>334,521</u>
Total operating revenues	<u>6,715,449</u>	<u>6,041,044</u>
Operating Expenses		
Salaries and wages	3,202,924	3,235,335
Employee benefits	666,250	558,475
Purchased services and professional fees	2,363,722	1,013,126
Supplies and other	723,870	622,264
Drugs	352,302	359,943
Food	84,690	90,993
Insurance	81,159	79,652
Utilities and telephone	195,822	173,915
Repairs and maintenance	154,795	160,130
Depreciation	658,961	668,669
Loss on disposal of fixed assets	<u>31,932</u>	<u>71,620</u>
Total operating expenses	<u>8,516,427</u>	<u>7,034,122</u>
Operating Loss	<u>(1,800,978)</u>	<u>(993,078)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,000,016	1,046,664
Interest income	1,086	1,061
Interest expense	(107,213)	(112,767)
Noncapital grants and gifts	<u>47,954</u>	<u>39,376</u>
Total nonoperating revenues	<u>941,843</u>	<u>974,334</u>
Decrease in Net Position	(859,135)	(18,744)
Net Position, Beginning of Year	<u>6,491,416</u>	<u>6,510,160</u>
Net Position, End of Year	<u><u>\$ 5,632,281</u></u>	<u><u>\$ 6,491,416</u></u>

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Activities
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues, Gains and Other Support		
Contributions	\$ 152,640	\$ 90,418
Total revenues, gains and other support	<u>152,640</u>	<u>90,418</u>
Expenses		
Contributions to Hospital	4,000	15,350
Contributions to Barber County Health Coalition	72,200	-
Fund raising expenses	1,886	1,914
Other expenses	<u>5,335</u>	<u>1,020</u>
Total expenses	<u>83,421</u>	<u>18,284</u>
Increase in Net Assets	69,219	72,134
Temporarily Restricted Net Assets, Beginning of Year	<u>175,484</u>	<u>103,350</u>
Temporarily Restricted Net Assets, End of Year	<u><u>\$ 244,703</u></u>	<u><u>\$ 175,484</u></u>

Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 5,825,780	\$ 5,932,837
Payments to suppliers and contractors	(3,509,535)	(2,601,357)
Payments to employees	(3,947,659)	(3,820,874)
Other receipts, net	428,973	406,141
Net cash used in operating activities	<u>(1,202,441)</u>	<u>(83,253)</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,000,016	1,046,664
Noncapital grants and gifts	47,954	39,376
Net cash provided by noncapital financing activities	<u>1,047,970</u>	<u>1,086,040</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(247,407)	(241,802)
Interest paid on long-term debt obligations	(109,988)	(115,422)
Purchase of capital assets	(170,379)	(40,932)
Net cash used in capital and related financing activities	<u>(527,774)</u>	<u>(398,156)</u>
Investing Activities		
Interest income	1,086	1,061
Net cash provided by investing activities	<u>1,086</u>	<u>1,061</u>
Increase (Decrease) in Cash	(681,159)	605,692
Cash, Beginning of Year	<u>1,168,491</u>	<u>562,799</u>
Cash, End of Year	<u><u>\$ 487,332</u></u>	<u><u>\$ 1,168,491</u></u>

Kiowa District Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Net		
Cash Used In Operating Activities		
Operating loss	\$ (1,800,978)	\$ (993,078)
Depreciation	658,961	668,669
Loss on disposal of capital assets	31,932	71,620
Changes in operating assets and liabilities		
Patient accounts receivable, net	(937,628)	(23,686)
Estimated amounts due from and to third-party payers	445,000	250,000
Supplies and prepaid expenses	(5,051)	(30,423)
Accounts payable and accrued expenses	<u>405,323</u>	<u>(26,355)</u>
Net cash used in operating activities	<u><u>\$ (1,202,441)</u></u>	<u><u>\$ (83,253)</u></u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for capital assets	\$ -	\$ 118,650

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	<u>\$ 69,219</u>	<u>\$ 72,134</u>
Net cash provided by operating activities	<u>69,219</u>	<u>72,134</u>
Increase in Cash	69,219	72,134
Cash, Beginning of Year	<u>175,484</u>	<u>103,350</u>
Cash, End of Year	<u><u>\$ 244,703</u></u>	<u><u>\$ 175,484</u></u>

Kiowa District Hospital

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

Kiowa District Hospital (the Hospital) was organized to provide acute health care services for the benefit of the community members, primarily in Barber County, Kansas. The Hospital's facilities are operated by a Board of Directors elected by the qualified voters of the Hospital. The Hospital Division primarily earns revenues by providing inpatient and outpatient services to residents of Barber County, Kansas, and the surrounding communities. In addition, residential long-term care services are provided under a separate license by the Manor Division (Manor) of the Hospital's operations.

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 and liabilities 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 and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as sales taxes), 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, 2017 and 2016, the Hospital had no cash equivalents.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Property Taxes

The Hospital received approximately 13% in 2017 and 16% in 2016 of its financial support from property taxes. One hundred percent (100%) of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

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 other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based on the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

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 market.

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 at their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 40 years
Buildings	5 – 56 years
Fixed equipment	3 – 43 years
Major moveable equipment	3 – 15 years

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

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. Sick leave benefits are realized as paid time off and 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 Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Hospital are classified in two components. Net investment in capital assets consist 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. Unrestricted net position are remaining assets less remaining liabilities that do 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 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 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.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Foundation

Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the Hospital in support of its programs. The five to seven member board of the Foundation is self-perpetuating and consists of area business and community members.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefits of the Hospital. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Hospital and for the benefit of patients served by the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2017 and 2016, the Foundation distributed \$4,000 and \$15,350 funds to the Hospital, respectively.

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

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 are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. 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 the incentive payment revenue received for qualified EHR technology expenditures during 2016, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying critical access hospitals for providing services to Medicare beneficiaries.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

The Hospital recorded revenue under the Medicare and Medicaid EHR program of \$0 and \$2,484, 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 Revenues

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). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. The Hospital is reimbursed for most 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. The Hospital is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid rural health clinic services are reimbursed under a cost-based methodology. The Hospital and rural health clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

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 each calendar quarter using an average of the 2010, 2011 and 2012 cost reports and changes in the Medicaid resident case mix index. Effective July 1, 2016, rates were rebased using an average of the 2013, 2014 and 2015 cost reports and changes in the Medicaid resident case mix. Effective July 1, 2017, rates were rebased using an average of the 2014, 2015 and 2016 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 78% and 69% 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.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

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.

At December 31, 2017 and 2016, respectively, none of the Hospital's bank balances of \$794,871 and \$1,277,829 were exposed to custodial credit risk.

Summary of Carrying Values

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

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	<u>\$ 487,332</u>	<u>\$ 1,168,491</u>
Included in the following balance sheet captions		
Cash	<u>\$ 487,332</u>	<u>\$ 1,168,491</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, 2017 and 2016, consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 1,044,918	\$ 179,091
Medicaid	96,526	37,932
Blue Cross	62,026	53,566
Other third-party payers	65,826	60,489
Patients	<u>421,802</u>	<u>381,392</u>
	1,691,098	712,470
Less allowance for uncollectible accounts	<u>344,000</u>	<u>303,000</u>
	<u>\$ 1,347,098</u>	<u>\$ 409,470</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016, was:

	2017			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	81,521	-	-	81,521
Buildings	7,012,761	83,095	(84,859)	7,010,997
Fixed equipment	1,787,840	6,111	-	1,793,951
Major moveable equipment	2,378,535	81,173	-	2,459,708
	<u>11,299,524</u>	<u>170,379</u>	<u>(84,859)</u>	<u>11,385,044</u>
Less accumulated depreciation				
Land improvements	12,995	7,613	-	20,608
Buildings	943,247	267,917	(52,927)	1,158,237
Fixed equipment	497,594	162,913	-	660,507
Major moveable equipment	1,593,649	220,518	-	1,814,167
	<u>3,047,485</u>	<u>658,961</u>	<u>(52,927)</u>	<u>3,653,519</u>
Capital Assets, Net	<u>\$ 8,252,039</u>	<u>\$ (488,582)</u>	<u>\$ (31,932)</u>	<u>\$ 7,731,525</u>

	2016			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	55,494	26,027	-	81,521
Buildings	7,009,595	3,166	-	7,012,761
Fixed equipment	1,868,394	3,460	(84,014)	1,787,840
Major moveable equipment	2,504,235	126,929	(252,629)	2,378,535
	<u>11,476,585</u>	<u>159,582</u>	<u>(336,643)</u>	<u>11,299,524</u>
Less accumulated depreciation				
Land improvements	8,108	4,887	-	12,995
Buildings	670,402	272,845	-	943,247
Fixed equipment	419,039	162,570	(84,015)	497,594
Major moveable equipment	1,546,290	228,367	(181,008)	1,593,649
	<u>2,643,839</u>	<u>668,669</u>	<u>(265,023)</u>	<u>3,047,485</u>
Capital Assets, Net	<u>\$ 8,832,746</u>	<u>\$ (509,087)</u>	<u>\$ (71,620)</u>	<u>\$ 8,252,039</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 6: Accounts Payable and Accrued Expenses

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

	2017	2016
Payable to suppliers and contractors	\$ 623,936	\$ 142,903
Payable to or on behalf of employees (including payroll taxes and benefits)	208,933	284,643
Bond interest payable	65,787	68,562
	<u>\$ 898,656</u>	<u>\$ 496,108</u>

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 near term.

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2017 and 2016:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 156,250	\$ -	\$ 12,250	\$ 144,000	\$ 12,750
USDA Hospital Refunding Revenue Bond Series 2014	2,780,000	-	115,000	2,665,000	120,000
Capital lease obligations	391,192	-	120,157	271,035	125,249
Total long-term debt	<u>\$ 3,327,442</u>	<u>\$ -</u>	<u>\$ 247,407</u>	<u>\$ 3,080,035</u>	<u>\$ 257,999</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 168,250	\$ -	\$ 12,000	\$ 156,250	\$ 12,250
USDA Hospital Refunding Revenue Bond Series 2014	2,890,000	-	110,000	2,780,000	115,000
Capital lease obligations	392,344	118,650	119,802	391,192	120,137
Total long-term debt	<u>\$ 3,450,594</u>	<u>\$ 118,650</u>	<u>\$ 241,802</u>	<u>\$ 3,327,442</u>	<u>\$ 247,387</u>

Public Building Commission Bonds Payable – 2012

The Public Building Commission (PBC) bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds, Series 2012, in the original amount of \$4,000,000 dated August 15, 2012, which bear interest at 2.0% to 3.0%. The bonds are payable in annual installments beginning September 1, 2013 through September 1, 2027. Semiannual interest only payments are due beginning March 1, 2013 through September 1, 2027. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

The Hospital's debt service requirements for the PBC bonds as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 16,498	\$ 12,750	\$ 3,748
2019	16,616	13,250	3,366
2020	16,468	13,500	2,968
2021	16,564	14,000	2,564
2022	16,516	14,250	2,266
2023-2027	<u>82,208</u>	<u>76,250</u>	<u>5,958</u>
	<u>\$ 164,870</u>	<u>\$ 144,000</u>	<u>\$ 20,870</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

USDA Hospital Refunding Bond Series 2014

On April 15, 2014, the Kiowa District Hospital issued USDA Hospital Refunding Revenue Bond, Series 2014, under the United States Department of Agriculture (USDA), Rural Development program in the amount of \$3,000,000 and bearing interest at 3.375%. Principal and interest payments under this issue began April 15, 2015, and extend through April 15, 2034. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements for the USDA bonds as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 209,944	\$ 120,000	\$ 89,944
2019	210,894	125,000	85,894
2020	206,675	125,000	81,675
2021	207,456	130,000	77,456
2022	208,069	135,000	73,069
2023-2027	1,043,625	750,000	293,625
2028-2032	1,043,456	885,000	158,456
2033-2034	415,081	395,000	20,081
	\$ 3,545,200	\$ 2,665,000	\$ 880,200

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2017 and 2016, totaled \$250,326 and \$373,894, respectively, net of accumulated depreciation of \$389,252 and \$265,684, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates between 3.08% to 5.09% with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	
2018	\$ 135,739
2019	77,754
2020	49,103
2021	28,225
Total minimum lease payments	290,821
Less amount representing interest	19,786
Present value of future minimum lease payments	\$ 271,035

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Note 9: Pension Plan

The Hospital is the trustee of a 457(b) deferred compensation plan covering substantially all employees. Plan contributions are made by participating employees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employer contributions to the plan were \$38,084 and \$39,548 for the years ended December 31, 2017 and 2016, respectively. The fair market value of employee investments at December 31, 2017 and 2016, were \$945,482 and \$843,909, respectively. These amounts are not reported as assets or liabilities of the Hospital.

Note 10: Friends of Kiowa District Hospital and Manor Foundation, Inc.

Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Display of Net Assets by Class

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Temporarily restricted assets received in the current year and whose restrictions are met during the year are shown as unrestricted net assets.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of 90 days or less to be cash equivalents. The Foundation has no cash equivalents.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2017 and 2016

Functional Allocation of Expenses

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations have not been reflected in the financial statements.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Donations are generally available for unrestricted use in the current year unless specifically restricted by the donor.

Related Entity

The Foundation works closely with the Hospital. Facilities and start-up funds were provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees/Directors.

Supplementary Information

Kiowa District Hospital
Net Patient Service Revenues
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Hospital Revenues		
Inpatient	\$ 899,064	\$ 773,044
Outpatient	2,141,300	2,446,707
Electronic Health Records	-	2,484
Clinic Revenues	833,151	807,612
Long-term Care Facility Revenues	<u>1,144,189</u>	<u>1,451,273</u>
Subtotal	5,017,704	5,481,120
Plus Contractual Adjustments	1,406,364	334,621
Less Provision for Uncollectible Accounts	<u>(105,660)</u>	<u>(109,218)</u>
Net Patient Service Revenues	<u><u>\$ 6,318,408</u></u>	<u><u>\$ 5,706,523</u></u>

Kiowa District Hospital

Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget

December 31, 2017

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenues	\$ 5,825,780	\$ 6,419,353	\$ (593,573)
Other revenue	<u>397,041</u>	<u>366,364</u>	<u>30,677</u>
Total revenues	<u>6,222,821</u>	<u>6,785,717</u>	<u>(562,896)</u>
Operating expenses	7,840,772	8,772,966	(932,194)
Interest paid	<u>109,988</u>	<u>-</u>	<u>109,988</u>
Operating expenses	<u>7,950,760</u>	<u>8,772,966</u>	<u>(822,206)</u>
Operating loss	<u>(1,727,939)</u>	<u>(1,987,249)</u>	<u>259,310</u>
Property taxes revenue	1,000,016	996,801	3,215
Other nonoperating revenues	<u>49,040</u>	<u>23,247</u>	<u>25,793</u>
Total nonoperating revenues	<u>1,049,056</u>	<u>1,020,048</u>	<u>29,008</u>
Deficiency of revenues over expenses	<u><u>\$ (678,883)</u></u>	<u><u>\$ (967,201)</u></u>	<u><u>\$ 288,318</u></u>

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