

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
Independent Auditor's Report and Financial Statements  
December 31, 2012 and 2011



**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**December 31, 2012 and 2011**

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## **Independent Auditor's Report on Financial Statements and Supplementary Information**

Board of Trustees  
Coffey Health System  
Burlington, Kansas

We have audited the accompanying financial statements of Coffey Health System, a component unit of Coffey County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

### ***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 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 Coffey Health System as of December 31, 2012 and 2011, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, 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 as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are 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  
September 10, 2013

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Balance Sheets**  
**December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,053,462	\$ 202,403
Short-term certificates of deposit	1,475,023	1,474,673
Patient accounts receivable, net of allowance; 2012 - \$2,584,000; 2011 - \$2,145,000	3,549,485	3,143,310
Estimated amounts due from Medicare and Medicaid	280,000	330,000
Supplies	479,548	510,812
Prepaid expenses and other	<u>116,238</u>	<u>192,748</u>
Total current assets	6,953,756	5,853,946
<b>Capital Assets, Net</b>	<u>7,936,854</u>	<u>8,235,481</u>
Total assets	<u><u>\$ 14,890,610</u></u>	<u><u>\$ 14,089,427</u></u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 30,708	\$ 30,708
Accounts payable	826,534	456,046
Accrued expenses	1,781,873	1,474,331
Deferred revenue	100,000	-
Deferred revenue - Medicaid provider assessment	<u>-</u>	<u>66,000</u>
Total current liabilities	2,739,115	2,027,085
<b>Long-term Debt</b>	<u>17,927</u>	<u>48,635</u>
Total liabilities	<u>2,757,042</u>	<u>2,075,720</u>
<b>Net Position</b>		
Net investment in capital assets	7,876,691	8,156,138
Unrestricted	<u>4,256,877</u>	<u>3,857,569</u>
Total net position	<u>12,133,568</u>	<u>12,013,707</u>
Total liabilities and net position	<u><u>\$ 14,890,610</u></u>	<u><u>\$ 14,089,427</u></u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$1,347,826, 2011 - \$1,326,482	\$ 21,302,594	\$ 20,233,409
Electronic health records incentive	1,202,600	-
Other	<u>749,167</u>	<u>815,724</u>
Total operating revenues	<u>23,254,361</u>	<u>21,049,133</u>
<b>Operating Expenses</b>		
Salaries and wages	12,815,063	12,298,732
Employee benefits	3,028,557	3,099,714
Purchased services and professional fees	1,511,576	1,165,735
Supplies and other	5,701,546	5,049,567
Depreciation	<u>860,808</u>	<u>1,094,454</u>
Total operating expenses	<u>23,917,550</u>	<u>22,708,202</u>
<b>Operating Loss</b>	<u>(663,189)</u>	<u>(1,659,069)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	750,000	750,000
Interest income	1,187	5,121
Interest expense	(4,330)	(7,383)
Noncapital grants and gifts	<u>36,193</u>	<u>30,049</u>
Total nonoperating revenues, net	<u>783,050</u>	<u>777,787</u>
<b>Increase (Decrease) in Net Position</b>	119,861	(881,282)
<b>Net Position, Beginning of Year</b>	<u>12,013,707</u>	<u>12,894,989</u>
<b>Net Position, End of Year</b>	<u>\$ 12,133,568</u>	<u>\$ 12,013,707</u>

**Coffey Health System**  
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**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 20,880,419	\$ 19,850,189
Payments to suppliers and contractors	(6,746,388)	(6,205,647)
Payments to and on behalf of employees	(15,536,078)	(15,169,154)
Electronic health records incentive payments	1,202,600	-
Other receipts	<u>714,887</u>	<u>815,724</u>
Net cash provided by (used in) operating activities	<u>515,440</u>	<u>(708,888)</u>
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue supporting operations	750,000	750,000
Noncapital grants and gifts	<u>36,193</u>	<u>30,049</u>
Net cash provided by noncapital financing activities	<u>786,193</u>	<u>780,049</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on capital leases	(30,708)	(57,922)
Interest paid on capital leases	(4,330)	(7,383)
Purchase of capital assets	(550,653)	(233,042)
Capital appropriations from County	100,000	-
Proceeds from sale of capital assets	<u>34,280</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(451,411)</u>	<u>(298,347)</u>
<b>Investing Activities</b>		
Interest income received	837	5,121
Purchase of short-term certificates of deposit	-	(3,208)
Maturities of short-term certificates of deposit	<u>-</u>	<u>221,758</u>
Net cash provided by investing activities	<u>837</u>	<u>223,671</u>
<b>Increase (Decrease) in Cash</b>	851,059	(3,515)
<b>Cash, Beginning of Year</b>	<u>202,403</u>	<u>205,918</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,053,462</u></u>	<u><u>\$ 202,403</u></u>

**Coffey Health System**  
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**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Net Operating Revenues (Expenses)</b>		
<b>to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (663,189)	\$ (1,659,069)
Depreciation	860,808	1,094,454
Gain on sale of capital assets	(34,280)	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(406,175)	(193,220)
Estimated amounts due from and to third-party payers	(16,000)	(190,000)
Accounts payable and accrued expenses	666,502	152,335
Supplies, prepaid expenses and other assets	107,774	86,612
	<u>\$ 515,440</u>	<u>\$ (708,888)</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset additions included in accounts payable	<u>\$ 11,528</u>	<u>\$ -</u>



**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

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

Coffey Health System (System) is an acute care hospital located in Burlington, Kansas. The System is a component unit of Coffey County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Coffey county area. It also operates a home health agency and long-term care and assisted living facilities in the same geographic area.

***Basis of Accounting and Presentation***

The financial statements of the System 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 nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific, such as intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

***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.

***Intergovernmental Revenue***

The System received approximately 3% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2012 and 2011. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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***Risk Management***

The System 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, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place 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 System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System 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 fair 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 System:

Land improvements	5 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

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***Compensated Absences***

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

***Net Position***

Net position of the System is 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 is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

***Net Patient Service Revenue***

The System has agreements with third-party payers that provide for payments to the System 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 System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System 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 System is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

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***Foundation***

The System is the beneficiary of East Central Kansas Health Foundation (Foundation), a separate legal entity with its own board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the System and, thus, not reflected in the accompanying financial statements.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. 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 (CMS). 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 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 recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Hospital has completed the first-year requirements under the Medicare and Medicaid programs and has recorded revenue of \$1,202,600 and \$0 in the years ended December 31, 2012 and 2011, respectively.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**Note 2: Net Patient Service Revenue**

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

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services (skilled

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swing-bed) are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The System is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to 2011, rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$305,000 and are included in 2011 net patient service revenue. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 41% and 43% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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 System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance

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products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement of the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the System will experience payment delays and other operational challenges during the PPACA's implementation.

**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 System'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, 2012 and 2011, respectively, \$1,780,881 and \$1,030,039 of the System's bank balances of \$2,914,004 and \$1,995,863 were exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the System's name	<u>\$ 1,780,881</u>	<u>\$ 1,030,039</u>

**Coffey Health System**  
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**December 31, 2012 and 2011**

***Summary of Carrying Values***

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

	<b>2012</b>	<b>2011</b>
Carrying value		
Deposits	\$ 2,527,615	\$ 1,676,206
Petty cash	<u>870</u>	<u>870</u>
	<u><u>\$ 2,528,485</u></u>	<u><u>\$ 1,677,076</u></u>
Included in the following balance sheet captions		
Cash	\$ 1,053,462	\$ 202,403
Short-term certificates of deposit	<u>1,475,023</u>	<u>1,474,673</u>
	<u><u>\$ 2,528,485</u></u>	<u><u>\$ 1,677,076</u></u>

**Note 4: Patient Accounts Receivable**

The System 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, 2012 and 2011, consisted of:

	<b>2012</b>	<b>2011</b>
Medicare	\$ 1,632,317	\$ 1,632,944
Medicaid	206,922	235,008
Blue Cross	696,856	545,265
Other third-party payers	612,364	370,560
Patients	<u>2,985,026</u>	<u>2,504,533</u>
	6,133,485	5,288,310
Less allowance for uncollectible accounts	<u>2,584,000</u>	<u>2,145,000</u>
	<u><u>\$ 3,549,485</u></u>	<u><u>\$ 3,143,310</u></u>

**Coffey Health System**  
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**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 274,184	\$ -	\$ -	\$ 274,184
Land improvements	982,757	4,160	-	986,917
Buildings	11,663,754	48,464	-	11,712,218
Fixed equipment	5,309,905	36,062	-	5,345,967
Major moveable equipment	11,744,599	473,495	(40,789)	12,177,305
	<u>29,975,199</u>	<u>562,181</u>	<u>(40,789)</u>	<u>30,496,591</u>
Less accumulated depreciation				
Land improvements	822,326	14,777	-	837,103
Buildings	6,740,832	304,704	-	7,045,536
Fixed equipment	3,895,079	183,124	-	4,078,203
Major moveable equipment	10,281,481	358,203	(40,789)	10,598,895
	<u>21,739,718</u>	<u>860,808</u>	<u>(40,789)</u>	<u>22,559,737</u>
Capital assets, net	<u>\$ 8,235,481</u>	<u>\$ (298,627)</u>	<u>\$ -</u>	<u>\$ 7,936,854</u>

  

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 274,184	\$ -	\$ -	\$ 274,184
Land improvements	982,757	-	-	982,757
Buildings	11,545,435	118,319	-	11,663,754
Fixed equipment	5,255,251	54,654	-	5,309,905
Major moveable equipment	11,684,530	60,069	-	11,744,599
	<u>29,742,157</u>	<u>233,042</u>	<u>-</u>	<u>29,975,199</u>
Less accumulated depreciation				
Land improvements	800,496	21,830	-	822,326
Buildings	6,445,414	295,418	-	6,740,832
Fixed equipment	3,729,627	165,452	-	3,895,079
Major moveable equipment	9,669,727	611,754	-	10,281,481
	<u>20,645,264</u>	<u>1,094,454</u>	<u>-</u>	<u>21,739,718</u>
Capital assets, net	<u>\$ 9,096,893</u>	<u>\$ (861,412)</u>	<u>\$ -</u>	<u>\$ 8,235,481</u>



**Coffey Health System**  
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**Notes to Financial Statements**  
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**Note 6: Medical Malpractice Coverage and Claims**

The System 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 System's claims experience, no such accrual has been made. It is reasonably possible this estimate could change materially in the future.

**Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the System for the years ended December 31, 2012 and 2011:

<b>2012</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligations	\$ 79,343	\$ -	\$ 30,708	\$ 48,635	\$ 30,708

  

<b>2011</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligations	\$ 137,265	\$ -	\$ 57,922	\$ 79,343	\$ 30,708

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Capital Lease Obligations***

The System is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2012 and 2011, totaled \$74,949 and \$96,885, respectively, net of accumulated depreciation of \$78,605 and \$56,669, respectively. The following is a schedule by year of future minimum lease payments under the capital lease obligations including interest at a rate of 0.00% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 30,708
2014	17,927
Total minimum lease payments	<u>48,635</u>
Less amount representing interest	<u>-</u>
Present value of future minimum lease payments	<u>\$ 48,635</u>

**Note 8: Pension Plan**

The System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 4% and 7%, respectively, for both 2012 and 2011. Contributions actually made by plan members and the System aggregated \$485,699 and \$849,973 during 2012 and \$442,390 and \$774,183 during 2011, respectively.

**Note 9: Subsequent Events**

***New Software System Purchase***

The System committed to purchase a new software system in early 2013 that will cost approximately \$1.1 million. The software system is being financed and is payable over the next five years.

***New HVAC System Purchase***

The System committed to purchase a new HVAC system in summer 2013 that will cost approximately \$1.5 million. The HVAC system is being financed and is payable over the next fifteen years.

## **Supplementary Information**

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Net Patient Service Revenues**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Nursing Services</b>			
Acute hospital	\$ 1,388,200	\$ 6,099	\$ 1,394,299
Swing-bed	149,737	-	149,737
Nursery	59,553	-	59,553
Long-term care	1,681,851	-	1,681,851
Assisted living	633,215	-	633,215
	<u>3,912,556</u>	<u>6,099</u>	<u>3,918,655</u>
<b>Other Professional Services</b>			
Operating room	370,832	1,373,263	1,744,095
Recovery room	57,628	337,385	395,013
Delivery room	126,429	25,466	151,895
Anesthesiology	160,884	404,128	565,012
Radiology	584,597	3,965,617	4,550,214
Laboratory	490,745	2,067,378	2,558,123
Blood administration	36,845	24,360	61,205
Respiratory services	231,859	649,729	881,588
Physical therapy	153,999	570,423	724,422
Occupational therapy	124,518	75,331	199,849
Speech pathology	969	4,591	5,560
Electrocardiology	33,024	199,452	232,476
Central service	1,360,392	712,430	2,072,822
Pharmacy	1,528,393	2,757,686	4,286,079
Specialty clinics	133	78,677	78,810
Emergency room	2,712	878,415	881,127
Observation	67,986	199,281	267,267
Rural health clinic	-	6,517,080	6,517,080
Ambulance	-	752,385	752,385
Home health	-	249,074	249,074
Physician clinics	-	-	-
Lifeline	-	29,600	29,600
Senior care	-	29,969	29,969
Wolf Creek	-	165,000	165,000
	<u>5,331,945</u>	<u>22,066,720</u>	<u>27,398,665</u>
	<u>\$ 9,244,501</u>	<u>\$ 22,072,819</u>	<u>31,317,320</u>
<b>Contractual Allowances, Charity Care and Provision for Uncollectible Accounts</b>			<u>10,014,726</u>
<b>Net Patient Service Revenue</b>			<u>\$ 21,302,594</u>

2011		
Inpatient	Outpatient	Total
\$ 1,198,625	\$ 6,179	\$ 1,204,804
145,505	-	145,505
56,663	-	56,663
1,781,826	-	1,781,826
557,327	-	557,327
<u>3,739,946</u>	<u>6,179</u>	<u>3,746,125</u>
288,842	1,237,107	1,525,949
48,042	316,207	364,249
95,005	16,341	111,346
149,738	429,324	579,062
575,963	4,156,934	4,732,897
423,132	1,891,009	2,314,141
31,761	26,426	58,187
222,095	635,754	857,849
143,274	556,296	699,570
116,961	94,654	211,615
2,083	5,299	7,382
25,956	180,631	206,587
1,234,721	776,013	2,010,734
1,502,839	2,297,226	3,800,065
133	85,051	85,184
1,074	897,884	898,958
53,689	242,397	296,086
-	5,465,433	5,465,433
-	762,056	762,056
-	220,458	220,458
-	643,912	643,912
-	28,458	28,458
-	36,344	36,344
-	186,782	186,782
<u>4,915,308</u>	<u>21,187,996</u>	<u>26,103,304</u>
<u>\$ 8,655,254</u>	<u>\$ 21,194,175</u>	<u>29,849,429</u>
		<u>9,616,020</u>
		<u>\$ 20,233,409</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Deductions From Revenue and Other Operating Revenue**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Deductions From Revenue</b>		
Medicare	\$ 6,063,619	\$ 5,068,538
Medicaid	396,623	748,405
Blue Cross	1,751,265	1,938,320
Other third-party payers	345,608	495,912
Charity care	8,346	5,380
Administrative adjustments	101,439	32,983
Provision for uncollectible accounts	<u>1,347,826</u>	<u>1,326,482</u>
	<u>\$ 10,014,726</u>	<u>\$ 9,616,020</u>

**Other Operating Revenue**

Mobile magnetic resonance imaging	\$ 371,755	\$ 446,225
Pharmacy sales to employees	100,573	125,730
Cafeteria	149,095	142,110
In-house catering	38,799	44,620
Laboratory services	25,401	27,463
Education	3,806	3,240
Sale of medical records	3,664	3,772
Vending machine	559	414
Rebates from vendors	5,443	7,610
Gain on disposal of capital assets	35,034	55
Miscellaneous	<u>15,038</u>	<u>14,485</u>
	<u>\$ 749,167</u>	<u>\$ 815,724</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Operating Expenses**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>			<b>2011</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
<b>Nursing Services</b>						
Nursing service	\$ 1,033,148	\$ 74,771	\$ 1,107,919	\$ 1,002,806	\$ 84,576	\$ 1,087,382
Nursery	31,126	429	31,555	28,624	999	29,623
Long-term care	1,320,746	394,417	1,715,163	1,267,775	389,909	1,657,684
Assisted living	452,039	187,153	639,192	410,668	178,667	589,335
Nursing administration	103,025	15,877	118,902	89,134	12,505	101,639
	<u>2,940,084</u>	<u>672,647</u>	<u>3,612,731</u>	<u>2,799,007</u>	<u>666,656</u>	<u>3,465,663</u>
<b>Other Professional Services</b>						
Operating room	149,723	131,507	281,230	133,993	50,690	184,683
Recovery room	75,395	250	75,645	89,839	7	89,846
Delivery room	119,423	43,086	162,509	128,975	8,548	137,523
Anesthesiology	418,703	158,924	577,627	330,186	186,089	516,275
Radiology	544,956	440,524	985,480	544,019	549,702	1,093,721
Laboratory	235,478	393,242	628,720	229,042	297,884	526,926
Blood administration	-	60,698	60,698	-	62,322	62,322
Respiratory services	167,641	172,842	340,483	182,372	165,042	347,414
Physical therapy	328,357	27,355	355,712	301,758	16,267	318,025
Occupational therapy	101,267	659	101,926	95,158	355	95,513
Speech pathology	8,258	-	8,258	19,212	120	19,332
Electrocardiology	12,881	1,823	14,704	18,105	780	18,885
Central service	38,652	669,139	707,791	30,557	482,722	513,279
Pharmacy	172,004	938,240	1,110,244	170,805	833,942	1,004,747
Specialty clinics	59,676	62,469	122,145	27,017	9,867	36,884
Emergency room	600,553	42,960	643,513	504,678	40,240	544,918
Rural health clinic	2,656,033	591,499	3,247,532	2,592,087	469,240	3,061,327
Ambulance	712,226	112,404	824,630	692,872	99,010	791,882
Home health	230,690	39,497	270,187	187,669	23,500	211,169
Physician clinics	1,176,862	243,607	1,420,469	1,083,045	153,120	1,236,165
Lifeline	1,896	1,191	3,087	930	531	1,461
Senior care	12,184	5,248	17,432	15,489	5,300	20,789
Wolf Creek	114,621	4,917	119,538	119,793	2,442	122,235
	<u>7,937,479</u>	<u>4,142,081</u>	<u>12,079,560</u>	<u>7,497,601</u>	<u>3,457,720</u>	<u>10,955,321</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>			<b>2011</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
<b>General Services</b>						
Plant operation	\$ 169,123	\$ 400,567	\$ 569,690	\$ 147,760	\$ 481,057	\$ 628,817
Laundry	23,372	28,254	51,626	24,134	16,766	40,900
Housekeeping	160,669	35,158	195,827	147,493	27,127	174,620
Dietary	288,508	283,930	572,438	241,393	252,239	493,632
	<u>641,672</u>	<u>747,909</u>	<u>1,389,581</u>	<u>560,780</u>	<u>777,189</u>	<u>1,337,969</u>
<b>Administration Services</b>						
Administration and general	958,519	1,212,714	2,171,233	1,150,066	1,000,984	2,151,050
Medical records	254,985	135,373	390,358	242,497	122,837	365,334
Marketing	82,324	302,398	384,722	48,781	189,916	238,697
	<u>1,295,828</u>	<u>1,650,485</u>	<u>2,946,313</u>	<u>1,441,344</u>	<u>1,313,737</u>	<u>2,755,081</u>
<b>Employee Benefits</b>		<u>3,028,557</u>	<u>3,028,557</u>		<u>3,099,714</u>	<u>3,099,714</u>
<b>Depreciation</b>		<u>860,808</u>	<u>860,808</u>		<u>1,094,454</u>	<u>1,094,454</u>
	<u>\$ 12,815,063</u>	<u>\$ 11,102,487</u>	<u>\$ 23,917,550</u>	<u>\$ 12,298,732</u>	<u>\$ 10,409,470</u>	<u>\$ 22,708,202</u>



**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Financial and Statistical Comparisons**  
**Years Ended December 31,**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Operating Revenues</b>	\$23,254,361	\$21,049,133	\$21,071,620	\$21,946,842	\$20,914,906
<b>Operating Expenses</b>	<u>23,917,550</u>	<u>22,708,202</u>	<u>23,173,036</u>	<u>23,301,680</u>	<u>22,034,085</u>
<b>Loss From Operations</b>	<u>\$ (663,189)</u>	<u>\$(1,659,069)</u>	<u>\$(2,101,416)</u>	<u>\$(1,354,838)</u>	<u>\$(1,119,179)</u>
<b>Total Salaries</b>	<u>\$12,815,063</u>	<u>\$12,298,732</u>	<u>\$12,382,523</u>	<u>\$12,305,411</u>	<u>\$11,567,549</u>
<b>Full-time Equivalents</b>	<u>261.5</u>	<u>259.9</u>	<u>264.0</u>	<u>267.4</u>	<u>261.8</u>
<b>Patient Days (Exclusive of Swing-bed)</b>					
Medicare	1,650	1,372	1,574	1,958	2,335
Other	<u>945</u>	<u>910</u>	<u>1,249</u>	<u>1,384</u>	<u>1,444</u>
Total	<u>2,595</u>	<u>2,282</u>	<u>2,823</u>	<u>3,342</u>	<u>3,779</u>
<b>Percent of Occupancy (Exclusive of Swing-bed)</b>	<u>19.7</u>	<u>17.4</u>	<u>21.5</u>	<u>25.4</u>	<u>28.8</u>
<b>Medicare Percent (Exclusive of Swing-bed)</b>	<u>63.6</u>	<u>60.1</u>	<u>55.8</u>	<u>58.6</u>	<u>61.8</u>
<b>Discharges (Exclusive of Swing-bed)</b>					
Medicare	520	435	507	621	722
Other	<u>462</u>	<u>386</u>	<u>567</u>	<u>617</u>	<u>661</u>
Total	<u>982</u>	<u>821</u>	<u>1,074</u>	<u>1,238</u>	<u>1,383</u>
<b>Average Length of Stay (Exclusive of Swing-bed)</b>					
Medicare	3.2	3.2	3.1	3.2	3.2
Other	2.0	2.4	2.2	2.2	2.2
Overall	2.6	2.8	2.6	2.7	2.7