

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2012 and 2011

BKD^{LLP}
CPAs & Advisors

Greeley County Hospital
A Component Unit of Greeley County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Greeley County Hospital
Tribune, Kansas

We have audited the accompanying financial statements of Greeley County Hospital, a component unit of Greeley County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, 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 Greeley County Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
July 24, 2013

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash	\$ 447,540	\$ 72,154
Patient accounts receivable, net of allowance; 2012 - \$503,428, 2011 - \$324,045	1,197,502	992,303
Other accounts receivable	437,975	371,634
Estimated amounts due from third-party payers	65,000	189,000
Supplies	126,360	89,202
Prepaid expenses and other	91,785	118,709
Total current assets	2,366,162	1,833,002
Capital Assets, Net	3,808,739	2,971,020
Total assets	<u>\$ 6,174,901</u>	<u>\$ 4,804,022</u>
 Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 371,077	\$ 178,505
Accounts payable	1,088,393	698,139
Line of credit	85,000	150,000
Accrued expenses	774,866	618,782
Deferred grant revenue	341,771	235,958
Total current liabilities	2,661,107	1,881,384
Long-term Debt	865,629	254,450
Total liabilities	3,526,736	2,135,834
Net Position		
Net investment in capital assets	2,683,816	2,738,065
Unrestricted	(35,651)	(69,877)
Total net position	2,648,165	2,668,188
Total liabilities and net position	<u>\$ 6,174,901</u>	<u>\$ 4,804,022</u>

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$245,000, 2011 – \$176,000	\$ 8,154,625	\$ 7,574,176
Outside services	367,895	450,908
Other	95,217	79,531
Total operating revenues	<u>8,617,737</u>	<u>8,104,615</u>
Operating Expenses		
Salaries and wages	4,816,233	4,583,698
Employee benefits	1,046,441	1,147,106
Purchased services and professional fees	921,696	1,318,903
Medical supplies and drugs	681,818	680,278
Food	186,988	183,140
Utilities	210,311	237,145
Supplies and other	1,395,527	622,747
Depreciation and amortization	418,214	335,061
Total operating expenses	<u>9,677,228</u>	<u>9,108,078</u>
Operating Loss	<u>(1,059,491)</u>	<u>(1,003,463)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	677,070	280,680
Interest income	4,360	3,732
Interest expense	(41,346)	(52,627)
Noncapital grants and gifts	399,384	274,769
Total nonoperating revenues	<u>1,039,468</u>	<u>506,554</u>
Decrease in Net Position	<u>(20,023)</u>	<u>(496,909)</u>
Net Position, Beginning of Year	<u>2,668,188</u>	<u>3,165,097</u>
Net Position, End of Year	<u>\$ 2,648,165</u>	<u>\$ 2,668,188</u>

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 8,073,426	\$ 7,587,832
Payments to suppliers and contractors	(3,016,320)	(3,063,306)
Payments to and on behalf of employees	(5,706,590)	(5,751,219)
Other receipts, net	<u>396,771</u>	<u>197,645</u>
Net cash used in operating activities	<u>(252,713)</u>	<u>(1,029,048)</u>
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	677,070	280,680
Proceeds from (payment on) line of credit	(65,000)	200,000
Interest payments	(19,152)	(30,433)
Noncapital grants and gifts	<u>505,197</u>	<u>495,727</u>
Net cash provided by noncapital financing activities	<u>1,098,115</u>	<u>945,974</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(290,245)	(133,381)
Interest paid on long-term debt	(22,194)	(22,194)
Purchase of capital assets	<u>(161,937)</u>	<u>(10,000)</u>
Net cash used in capital and related financing activities	<u>(474,376)</u>	<u>(165,575)</u>
Investing Activities		
Interest income received	<u>4,360</u>	<u>3,732</u>
Net cash provided by investing activities	<u>4,360</u>	<u>3,732</u>
Increase (Decrease) in Cash	375,386	(244,917)
Cash, Beginning of Year	<u>72,154</u>	<u>317,071</u>
Cash, End of Year	<u>\$ 447,540</u>	<u>\$ 72,154</u>

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Net Operating Expenses to Net Cash Used in		
Operating Activities		
Operating loss	\$ (1,059,491)	\$ (1,003,463)
Depreciation and amortization	418,214	335,061
Changes in operating assets and liabilities		
Patient accounts receivable, net	(205,199)	192,656
Estimated amounts due from and to Medicare	124,000	(179,000)
Accounts payable and accrued expenses	546,338	(93,637)
Other current assets	(76,575)	(280,665)
Net cash used in operating activities	<u>\$ (252,713)</u>	<u>\$ (1,029,048)</u>
Supplemental Cash Flows Information		
Capital assets acquired through trade-in of equipment	\$ -	\$ 88,616
Capital lease obligations incurred for capital assets	\$ 1,093,996	\$ 34,000
Line of credit converted to term debt	\$ -	\$ 200,000

Greeley County Hospital
A Component Unit of Greeley 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

Greeley County Hospital (Hospital) is an acute care hospital located in Tribune, Kansas. The Hospital is a component unit of Greeley County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and residential long-term care services to patients in the Greeley county area.

On January 1, 2006, the Board of Trustees of Greeley County Hospital (Lessor) (Hospital) organized Greeley County Health Services, Inc. (Lessee) (GCHS) as a Section 501(c)(3) organization for the purpose of assuming custody of certain assets and liabilities related to hospital operations and operate the Hospital as of January 1, 2006, pursuant to a lease agreement ending December 31, 2011. Board members of the Lessor act as the Board of Trustees for the Lessee. At the conclusion of the lease, the Lessee has the right to extend the term of the lease for two (2) additional periods of five (5) years each, beyond the expiration of the initial term. Rent expense under this lease is \$1 paid at the beginning of the lease term. The Lessee has exercised the right to extend the lease for a five-year period ending December 31, 2016.

The financial statements include the accounts of the Hospital and GCHS. All significant intercompany accounts and transactions have been eliminated.

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 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 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.

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, there were no cash equivalents.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Intergovernmental Revenue

The Hospital received approximately 7% and 3% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2012 and 2011, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are assessed by the County in November of one year 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.

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, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Workers Risk Cooperative. 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 reserves have been accrued.

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.

Greeley County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

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 Hospital:

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

Compensated Absences

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

Net Position

Net position of the Hospital is classified in two components. Net investment consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position 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 include estimated retroactive revenue adjustments and a provision for uncollectible accounts.

Greeley County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

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. GCHS is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, both entities are subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments 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 (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 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 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.

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.

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. The Hospital is paid for inpatient, outpatient and rural health clinic services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Services rendered to Medicaid managed care patients are reimbursed under a prospective reimbursement 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.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital 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 \$78,000 and are included in 2011 net income. 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 62% and 58% of net patient service revenue was 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 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.

Greeley County Hospital
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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 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 Hospital 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 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, 2012 and 2011, respectively, none of the Hospital's bank balances were exposed to custodial credit risk.

Greeley County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

Summary of Carrying Values

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

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	\$ 137,495	\$ 35,799
Deposits held by a nongovernmental entity - GCHS	<u>310,045</u>	<u>36,355</u>
	<u>\$ 447,540</u>	<u>\$ 72,154</u>
Included in the following balance sheet captions		
Cash	<u>\$ 447,540</u>	<u>\$ 72,154</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, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 525,982	\$ 361,727
Medicaid	115,650	85,466
Blue Cross	153,124	101,034
Other third-party payers.	198,308	206,951
Patients	<u>707,866</u>	<u>561,170</u>
	1,700,930	1,316,348
Less allowance for uncollectible accounts	<u>503,428</u>	<u>324,045</u>
	<u>\$ 1,197,502</u>	<u>\$ 992,303</u>

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note 5: Capital Assets

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

	2012		
	Beginning Balance	Additions	Ending Balance
Land	\$ 49,851	\$ -	\$ 49,851
Land improvements	11,585	-	11,585
Buildings	3,600,737	-	3,600,737
Fixed equipment	43,172	-	43,172
Construction in progress	-	2,072	2,072
Major moveable equipment	976,339	1,253,861	2,230,200
	<u>4,681,684</u>	<u>1,255,933</u>	<u>5,937,617</u>
Less accumulated depreciation			
Land improvements	5,514	751	6,265
Buildings	1,004,321	156,240	1,160,561
Fixed equipment	38,222	2,527	40,749
Major moveable equipment	662,607	258,696	921,303
	<u>1,710,664</u>	<u>418,214</u>	<u>2,128,878</u>
Capital Assets, Net	<u>\$ 2,971,020</u>	<u>\$ 837,719</u>	<u>\$ 3,808,739</u>

Greeley County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 49,851	\$ -	\$ -	\$ 49,851
Land improvements	11,585	-	-	11,585
Buildings	3,600,737	-	-	3,600,737
Fixed equipment	43,172	-	-	43,172
Major moveable equipment	1,252,723	132,616	(409,000)	976,339
	<u>4,958,068</u>	<u>132,616</u>	<u>(409,000)</u>	<u>4,681,684</u>
Less accumulated depreciation				
Land improvements	4,763	751	-	5,514
Buildings	846,211	158,110	-	1,004,321
Fixed equipment	34,492	3,730	-	38,222
Major moveable equipment	810,521	172,470	(320,384)	662,607
	<u>1,695,987</u>	<u>335,061</u>	<u>(320,384)</u>	<u>1,710,664</u>
Capital Assets, Net	<u>\$ 3,262,081</u>	<u>\$ (202,445)</u>	<u>\$ (88,616)</u>	<u>\$ 2,971,020</u>

Note 6: 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 \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

Greeley County Hospital
A Component Unit of Greeley County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Note 7: Line of Credit

The Hospital periodically borrows funds from banks to finance operations on an interim basis. The line of credit bears interest at the prime rate as published in the Wall Street Journal plus 4.25%, is secured by the Hospital's cash accounts and matures one year from issuance. The following is a summary of line of credit transactions for the years ended December 31:

	2012	2011
Beginning balance	\$ 150,000	\$ 150,000
Additions	-	200,000
Deductions	(65,000)	(200,000)
Ending balance	<u>\$ 85,000</u>	<u>\$ 150,000</u>

During the year ended December 31, 2011, the Hospital converted \$200,000 of its line of credit to term debt, see Note 8.

Note 8: Long-term Debt

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

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	\$ 200,000	\$ -	\$ 88,217	\$ 111,783	\$ 102,889
Capital lease obligations	232,955	1,093,996	202,028	1,124,923	268,188
Total long-term debt	<u>\$ 432,955</u>	<u>\$ 1,093,996</u>	<u>\$ 290,245</u>	<u>\$ 1,236,706</u>	<u>\$ 371,077</u>

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 16,217
Capital lease obligations	332,336	34,000	133,381	232,955	268,188
Total long-term debt	<u>\$ 332,336</u>	<u>\$ 234,000</u>	<u>\$ 133,381</u>	<u>\$ 432,955</u>	<u>\$ 371,077</u>

Greeley County Hospital
A Component Unit of Greeley County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note Payable to Bank

The note payable to bank is due January 20, 2014, with principal and interest at prime plus 3.5% payable monthly. The note is secured by the Hospital's cash accounts, supplies inventories and capital assets. The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 107,347	\$ 102,889	\$ 4,458
2014	8,946	8,894	52
	<u>\$ 116,293</u>	<u>\$ 111,783</u>	<u>\$ 4,510</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2012 and 2011, totaled \$1,139,183 and \$199,794, respectively, net of accumulated depreciation of \$448,177 and \$245,560, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at varying rates of 5.25% to 7.75% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 306,232
2014	290,727
2015	290,727
2016	290,495
2017	28,803
2018	14,400
Total minimum lease payments	<u>1,221,384</u>
Less amount representing interest	<u>96,461</u>
Present value of future minimum lease payments	<u>\$ 1,124,923</u>

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Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3.6% and 5.1% for 2012 and 3.8% and 5.7% for 2011. Contributions actually made by plan members and the Hospital aggregated \$175,375 and \$247,442 during 2012 and \$173,370 and \$259,729 during 2011, respectively.

Note 10: Future Liquidity Needs

The Hospital has incurred losses from operations for the past three years. Management is considering several alternatives for mitigating these conditions during the next year to address liquidity needs. These include, but are not limited to, evaluation of staffing patterns in the Hospital and adjustments of charge rates for services to meet market conditions.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1 and 6*.

Admitting Physicians

The Hospital is served by three admitting physicians whose patients comprise substantially all of the Hospital's net patient service revenue.

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Note 12: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

