

Hospital District No. 5 of Harper County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



Hospital District No. 5 of Harper County, Kansas

December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Hospital District No. 5 of Harper County, Kansas
Harper, Kansas

We have audited the accompanying financial statements of Hospital District No. 5 of Harper 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 Hospital District No. 5 of Harper County, Kansas 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
April 12, 2013

Hospital District No. 5 of Harper County, Kansas

Balance Sheets

December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 534,242	\$ 317,531
Restricted cash - current	65,361	60,563
Patient accounts receivable, net of allowance; 2012 - \$585,000, 2011 - \$600,000	1,062,749	944,486
Property taxes receivable	624,940	544,226
Estimated amounts due from third-party payers	278,000	440,000
Supplies	236,518	201,539
Prepaid expenses and other	42,079	90,419
Total current assets	<u>2,843,889</u>	<u>2,598,764</u>
Noncurrent Cash		
Held for debt service	130,285	102,554
Less amount required to meet current obligations	<u>65,361</u>	<u>60,563</u>
	<u>64,924</u>	<u>41,991</u>
Capital Assets, Net	<u>5,443,196</u>	<u>5,936,556</u>
Bond Issuance Costs, Net of Amortization	<u>50,093</u>	<u>52,714</u>
Total assets	<u>\$ 8,402,102</u>	<u>\$ 8,630,025</u>

Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of long-term debt	\$ 374,043	\$ 400,010
Accounts payable	31,756	69,220
Accrued expenses	511,886	494,900
Security deposits	10,200	9,200
Deferred property tax revenue	624,941	544,226
	<hr/>	<hr/>
Total current liabilities	1,552,826	1,517,556
Long-term Debt	2,805,829	3,150,406
	<hr/>	<hr/>
Total liabilities	4,358,655	4,667,962
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	2,313,417	2,438,854
Restricted - expendable for debt service	130,285	102,554
Unrestricted	1,599,745	1,420,655
	<hr/>	<hr/>
Total net position	4,043,447	3,962,063
	<hr/>	<hr/>
Total liabilities and net position	\$ 8,402,102	\$ 8,630,025
	<hr/>	<hr/>

Hospital District No. 5 of Harper County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$362,521, 2011 - \$225,025	\$ 6,517,690	\$ 6,612,338
Electronic Health Records Incentive revenue	420,924	-
Other	<u>104,767</u>	<u>86,440</u>
Total operating revenues	<u>7,043,381</u>	<u>6,698,778</u>
Operating Expenses		
Salaries and wages	3,768,603	3,766,872
Employee benefits	1,324,315	1,337,762
Specialists' fees	157,717	214,399
Drugs and medical supplies	470,458	515,801
Food	96,935	86,854
Utilities	154,244	149,799
Telephone	35,154	40,563
Legal and accounting	70,717	65,842
Dues	42,423	49,497
Insurance	104,220	115,282
Supplies and other	570,529	473,688
Depreciation and amortization	<u>658,121</u>	<u>566,856</u>
Total operating expenses	<u>7,453,436</u>	<u>7,383,215</u>
Operating Loss	<u>(410,055)</u>	<u>(684,437)</u>
Nonoperating Revenues (Expenses)		
Property taxes	583,379	539,687
Interest income	515	1,089
Interest expense	(217,468)	(216,219)
Noncapital grants and gifts	<u>74,013</u>	<u>38,969</u>
Total nonoperating revenues	<u>440,439</u>	<u>363,526</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	30,384	(320,911)
Capital Grants and Gifts	<u>51,000</u>	<u>93,196</u>
Increase (Decrease) in Net Position	81,384	(227,715)
Net Position, Beginning of Year	<u>3,962,063</u>	<u>4,189,778</u>
Net Position, End of Year	<u><u>\$ 4,043,447</u></u>	<u><u>\$ 3,962,063</u></u>

Hospital District No. 5 of Harper 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	\$ 6,561,427	\$ 6,455,207
Payments to suppliers and contractors	(1,725,500)	(1,688,614)
Payments to employees	(5,075,932)	(5,036,492)
Other receipts, net	<u>525,691</u>	<u>86,440</u>
Net cash provided by (used in) operating activities	<u>285,686</u>	<u>(183,459)</u>
Noncapital Financing Activities		
Property taxes supporting operations	583,380	539,687
Noncapital grants and gifts	<u>74,013</u>	<u>38,969</u>
Net cash provided by noncapital financing activities	<u>657,393</u>	<u>578,656</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(408,825)	(323,432)
Interest paid on long-term debt	(217,468)	(216,219)
Purchase of capital assets	(123,859)	(149,872)
Capital grants and gifts	<u>51,000</u>	<u>93,196</u>
Net cash used in capital and related financing activities	<u>(699,152)</u>	<u>(596,327)</u>
Investing Activities		
Interest income	<u>515</u>	<u>1,089</u>
Net cash provided by investing activities	<u>515</u>	<u>1,089</u>
Increase (Decrease) in Cash and Cash Equivalents	244,442	(200,041)
Cash and Cash Equivalents, Beginning of Year	<u>420,085</u>	<u>620,126</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 664,527</u></u>	<u><u>\$ 420,085</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 599,603	\$ 378,094
Cash and cash equivalents in noncurrent cash	<u>64,924</u>	<u>41,991</u>
Total cash and cash equivalents	<u><u>\$ 664,527</u></u>	<u><u>\$ 420,085</u></u>

Hospital District No. 5 of Harper County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (410,055)	\$ (684,437)
Depreciation and amortization	658,121	566,856
Changes in operating assets and liabilities		
Patient accounts receivable	(118,263)	120,786
Estimated amounts due from third-party payers	162,000	(277,917)
Accounts payable and accrued expenses	(19,478)	71,717
Other assets and liabilities	<u>13,361</u>	<u>19,536</u>
Net cash provided by (used in) operating activities	<u><u>\$ 285,686</u></u>	<u><u>\$ (183,459)</u></u>
 Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 38,281	\$ 439,018

Hospital District No. 5 of Harper 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

Hospital District No. 5 of Harper County, Kansas (the Hospital) was organized to provide not-for-profit acute care services for the benefit of the community in and around Harper and Kingman counties. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient and outpatient services to patients in south central Kansas. Additionally, the Hospital provides physician/mid-level practitioner services in four clinic locations and has 13 units licensed for assisted living.

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, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital 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.

Property Taxes

The Hospital received approximately 8% and 7% in 2012 and 2011, respectively, of its financial support from property taxes. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied 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.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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 premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported.

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 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 – 15 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 20 years

Bond Issuance Costs

Bond issuance costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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. 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 Hospital is classified in three 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. Restricted expendable net position are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

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 charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

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.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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 (CAHs) 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.

The Hospital has completed the first-year requirements under the Medicare program and recorded revenue of approximately \$420,000 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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH. 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.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. 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. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$172,000 in 2012 and \$221,000 in 2011.

Approximately 65% and 68% of net patient service revenue are 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.

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.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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 Health Center 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, none of the Hospital's bank balances of \$781,534 and \$549,683, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 664,027	\$ 419,585
Petty cash	500	500
	<u>\$ 664,527</u>	<u>\$ 420,085</u>
Included in the following balance sheet captions		
Cash	\$ 534,242	\$ 317,531
Restricted cash - current	65,361	60,563
Noncurrent cash	64,924	41,991
	<u>\$ 664,527</u>	<u>\$ 420,085</u>

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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:

	2012	2011
Medicare	\$ 597,375	\$ 511,330
Medicaid	10,440	28,672
Other third-party payers	250,385	214,107
Patients	789,549	790,377
	<u>1,647,749</u>	<u>1,544,486</u>
Less allowance for uncollectible accounts	<u>585,000</u>	<u>600,000</u>
	<u><u>\$ 1,062,749</u></u>	<u><u>\$ 944,486</u></u>

Note 5: Capital Assets

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

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 75,161	\$ -	\$ -	\$ -	\$ 75,161
Buildings	6,534,312	120,963	-	-	6,655,275
Fixed equipment	1,289,990	-	-	-	1,289,990
Major moveable equipment	4,039,505	41,177	(3,568)	-	4,077,114
	<u>11,938,968</u>	<u>162,140</u>	<u>(3,568)</u>	<u>-</u>	<u>12,097,540</u>
Less accumulated depreciation					
Land improvements	25,561	1,212	-	-	26,773
Buildings	2,237,206	213,929	-	-	2,451,135
Fixed equipment	1,066,890	46,337	-	-	1,113,227
Major moveable equipment	2,672,755	394,022	(3,568)	-	3,063,209
	<u>6,002,412</u>	<u>655,500</u>	<u>(3,568)</u>	<u>-</u>	<u>6,654,344</u>
Capital Assets, Net	<u><u>\$ 5,936,556</u></u>	<u><u>\$ (493,360)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,443,196</u></u>

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 75,161	\$ -	\$ -	\$ -	\$ 75,161
Buildings	6,472,904	61,408	-	-	6,534,312
Fixed equipment	1,289,990	-	-	-	1,289,990
Major moveable equipment	3,512,023	527,482	-	-	4,039,505
	11,350,078	588,890	-	-	11,938,968
Less accumulated depreciation					
Land improvements	24,278	1,283	-	-	25,561
Buildings	2,022,355	214,851	-	-	2,237,206
Fixed equipment	1,021,184	45,706	-	-	1,066,890
Major moveable equipment	2,370,360	302,395	-	-	2,672,755
	5,438,177	564,235	-	-	6,002,412
Capital Assets, Net	\$ 5,911,901	\$ 24,655	\$ -	\$ -	\$ 5,936,556

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2012 and 2011, consisted of:

	2012	2011
Payable to suppliers and contractors	\$ 31,756	\$ 69,220
Payable to employees (including payroll taxes and benefits)	511,886	494,900
Security deposits	10,200	9,200
Deferred property tax revenue	624,941	544,226
	\$ 1,178,783	\$ 1,117,546

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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 \$300,000 of claims-made 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 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, 2012 and 2011:

2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable - 2000 (A)	\$ 225,000	\$ -	\$ 20,000	\$ 205,000	\$ 25,000
Revenue bonds payable - 2009 (B)	840,196	-	15,786	824,410	16,578
Revenue bonds payable - 2009 (C)	947,138	-	27,568	919,570	29,566
Revenue bonds payable - 2009 (D)	378,388	-	11,270	367,118	12,059
Capital lease obligations	1,159,694	38,281	334,201	863,774	290,840
Total long-term debt	<u>\$3,550,416</u>	<u>\$ 38,281</u>	<u>\$ 408,825</u>	<u>\$ 3,179,872</u>	<u>\$ 374,043</u>
2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable - 2000 (A)	\$ 245,000	\$ -	\$ 20,000	\$ 225,000	\$ 20,000
Revenue bonds payable - 2009 (B)	855,417	-	15,221	840,196	15,786
Revenue bonds payable - 2009 (C)	972,842	-	25,704	947,138	27,567
Revenue bonds payable - 2009 (D)	388,921	-	10,533	378,388	11,270
Capital lease obligations	972,650	439,018	251,974	1,159,694	325,387
Total long-term debt	<u>\$3,434,830</u>	<u>\$ 439,018</u>	<u>\$ 323,432</u>	<u>\$ 3,550,416</u>	<u>\$ 400,010</u>

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Revenue Bonds Payable – 2000 (A)

In 2000, the Hospital entered into an agreement with the state of Kansas to issue bonds to finance construction of a limited care residential retirement facility. The bonds bear interest at 7.00%, are due semi-annually in increasing principal amounts with final bonds maturing January 1, 2020; given that payments are required to be submitted a month before stated due date, the following maturity schedule shows final payment due in 2019. The Hospital, acting as its own trustee, is required by the state to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the principal and interest accounts. Accordingly, the facility and bond indebtedness have been included in the financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the retirement facility.

Bonds issued which mature after January 1, 2006, may be redeemed in advance of their maturity at redemption prices ranging from 100% to 101%.

The bond indentures require certain covenants be met during each year. Those covenants require income available for future debt service of 1.25 to 1.00, the facility must be maintained and insured and monthly deposits must be made to the trustee account.

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 39,350	25,000	14,350
2014	37,600	25,000	12,600
2015	35,850	25,000	10,850
2016	39,100	30,000	9,100
2017	37,000	30,000	7,000
2018 - 2019	77,700	70,000	7,700
	<u>\$ 266,600</u>	<u>\$ 205,000</u>	<u>\$ 61,600</u>

Revenue Bonds Payable – 2009 (B)

In 2009, the Hospital entered into an agreement with the United States Department of Agriculture (USDA) to issue bonds to finance construction of an expansion project. The bonds bear interest at 4.375%, are due semi-annually in increasing principal amounts with final bonds maturing September 23, 2039. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the principal and interest accounts. Accordingly, the facility and bond indebtedness have been included in the financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Bonds may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants be met during each year. Those covenants require income available for future debt service of 1.1 to 1.0 for all parity obligations outstanding, the facility must be maintained and insured and monthly deposits must be made to the trustee account.

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 52,646	\$ 16,578	\$ 36,068
2014	52,646	17,303	35,343
2015	52,646	18,060	34,586
2016	52,646	18,758	33,888
2017	52,646	19,671	32,975
2018 - 2022	263,228	111,950	151,278
2023 - 2027	263,229	138,688	124,541
2028 - 2032	263,230	171,771	91,459
2033 - 2037	263,229	212,867	50,362
2038 - 2039	105,290	98,764	6,526
	<u>\$ 1,421,436</u>	<u>\$ 824,410</u>	<u>\$ 597,026</u>

Revenue Bonds Payable – 2009 (C)

In 2009, the Hospital entered into an agreement with the USDA to issue bonds to finance construction of an expansion project. The USDA is acting as a guarantor and will cover 90% of the face value of the bonds in the event that the Hospital defaults on the debt. Freeport State Bank of Harper, Kansas and Kanza Bank of Kingman, Kansas each purchased \$500,000 of the bond offering. The bonds bear interest at 7.25%, are due semi-annually in increasing principal amounts with final bonds maturing November 1, 2029. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the principal and interest accounts. Accordingly, the facility and bond indebtedness have been included in the financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital.

Bonds may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants be met during each year. Those covenants require income available for future debt service of 1.1 to 1.0 for all parity obligations outstanding, the facility must be maintained and insured and monthly deposits must be made to the trustee account.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 96,235	\$ 29,566	\$ 66,669
2014	96,235	31,710	64,525
2015	96,235	34,008	62,227
2016	96,235	36,474	59,761
2017	96,235	39,118	57,117
2018 - 2022	481,175	242,476	238,699
2023 - 2027	481,175	344,077	137,098
2028 - 2029	179,524	162,141	17,383
	\$ 1,623,049	\$ 919,570	\$ 703,479

Revenue Bonds Payable – 2009 (D)

In 2009, the Hospital entered into an agreement with the USDA to issue bonds to finance construction of an expansion project. The USDA is acting as a guarantor and will cover 90% of the face value of the bonds in the event that the Hospital defaults on the debt. The bonds were purchased in their entirety by Citizens National Bank of Arlington, Kansas. The bonds bear interest at 7.00%, are due semi-annually in increasing principal amounts with final bonds maturing November 1, 2029. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the principal and interest accounts. Accordingly, the facility and bond indebtedness have been included in the financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital.

Bonds may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants be met during each year. Those covenants require income available for future debt service of 1.1 to 1.0 for all parity obligations outstanding, the facility must be maintained and insured and monthly deposits must be made to the trustee account.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 37,757	\$ 12,059	\$ 25,698
2014	37,757	12,903	24,854
2015	37,757	13,806	23,951
2016	37,757	14,773	22,984
2017	37,757	15,807	21,950
2018 - 2022	188,786	97,264	91,522
2023 - 2027	188,786	136,417	52,369
2028 - 2029	70,733	64,089	6,644
	\$ 637,090	\$ 367,118	\$ 269,972

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and 2011, totaled \$1,114,120 and \$1,392,082, respectively, net of accumulated depreciation of \$741,299 and \$435,499, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 3.27% to 12.29% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 342,584
2014	335,479
2015	227,760
2016	55,464
Total minimum lease payments	961,287
Less amount representing interest	97,513
Present value of future minimum lease payments	\$ 863,774

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Note 9: Designated Net Position

At December 31, 2012 and 2011, \$75,429 and \$124,382, respectively, of unrestricted net position have been designated by the Hospital's Board of Directors for capital acquisitions. The designated net position remains under the control of the Board of Directors, which may at its discretion later use for other purposes and as such are classified as current assets included in cash.

Note 10: Related Party Transactions

An officer of a local financial institution is also a member of the Board of Directors. At December 31, 2012 and 2011, the Hospital had cash balances of approximately \$420,000 and \$240,000, respectively, and long-term debt balances of approximately \$20,000 and \$30,000, respectively, with this financial institution.

Note 11: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) Employee Pension Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate of 8.34% from January 1, 2012 to December 31, 2012, and an average rate of 7.74% and 7.14% of annual covered payroll for 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$290,973, \$262,720 and \$250,830, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Hospital District No. 5 of Harper County, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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 meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Hospital District No. 5 of Harper County, Kansas

Net Patient Service Revenue

Years Ended December 31, 2012 and 2011

	2012		
	Inpatient	Outpatient	Total
Nursing, dietary and room services:			
Acute hospital	\$ 374,746	\$ -	\$ 374,746
Swing-beds	510,118	-	510,118
Operating room	9,850	45,860	55,710
Endoscopy	-	121,086	121,086
Anesthesiology	1,986	30,308	32,294
Radiology	85,710	1,042,088	1,127,798
Sonography	31,905	287,540	319,445
Laboratory	139,768	1,161,997	1,301,765
Intravenous therapy	12,701	60,598	73,299
Respiratory therapy	175	22,714	22,889
Physical therapy	26,130	195,868	221,998
Speech therapy	19,130	-	19,130
Electrocardiology	4,510	49,775	54,285
Central supply	201,786	25,193	226,979
Pharmacy	203,514	251,642	455,156
Emergency room	5,086	428,810	433,896
Emergency room physician	100	267,572	267,672
Observation	2,600	144,293	146,893
Rural health clinics	-	1,291,886	1,291,886
Home health	-	420	420
Wellness Center	-	16,992	16,992
Residential living	180,653	-	180,653
	<u>\$ 1,810,468</u>	<u>\$ 5,444,642</u>	<u>7,255,110</u>
Less contractual allowances and charity care			374,899
Less provision for uncollectible accounts			<u>362,521</u>
Net patient service revenue			<u>\$ 6,517,690</u>

2011		
Inpatient	Outpatient	Total
\$ 305,801	\$ -	\$ 305,801
424,618	-	424,618
10,385	107,378	117,763
1,908	126,303	128,211
2,723	50,087	52,810
90,297	954,870	1,045,167
38,333	220,447	258,780
142,943	1,135,847	1,278,790
11,155	66,253	77,408
280	11,276	11,556
24,560	177,732	202,292
15,750	-	15,750
3,410	52,640	56,050
176,110	14,817	190,927
207,265	244,837	452,102
6,536	382,977	389,513
380	282,028	282,408
3,114	158,038	161,152
-	1,405,047	1,405,047
-	240	240
-	18,169	18,169
140,176	-	140,176
<u>\$ 1,605,744</u>	<u>\$ 5,408,986</u>	7,014,730
		177,367
		<u>225,025</u>
		<u>\$ 6,612,338</u>

Hospital District No. 5 of Harper County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2012 and 2011

Contractual Allowances, Charity Care and Administrative Adjustments

	<u>2012</u>	<u>2011</u>
Medicare	\$ (332,680)	\$ (512,435)
Medicaid	(133,973)	(128,734)
Blue Cross	472,564	376,092
Commercial insurance	330,620	336,533
Physician clinic	(20,000)	16,755
Charity care	40,933	67,825
Administrative adjustments	<u>17,435</u>	<u>21,331</u>
	<u>\$ 374,899</u>	<u>\$ 177,367</u>

Other Operating Revenues

Cafeteria sales	\$ 52,810	\$ 45,681
Health fair	10,428	13,696
Other	<u>41,529</u>	<u>27,063</u>
	<u>\$ 104,767</u>	<u>\$ 86,440</u>

Hospital District No. 5 of Harper County, Kansas

Operating Expenses

Years Ended December 31, 2012 and 2011

	2012	
	Salaries	Other
		Total
Nursing service	\$ 807,175	\$ 87,657
Operating room	26,761	25,748
Endoscopy	3,648	14,303
Anesthesiology	-	28,560
Radiology	131,754	148,239
Sonography	50,453	12,021
Laboratory	191,372	220,964
Intravenous therapy	-	28,023
Respiratory therapy	172	14,838
Physical therapy	108,480	10,284
Speech therapy	-	8,500
Electrocardiology	1,550	4,220
Central supply	25,212	(17,504)
Pharmacy	14,168	161,623
Emergency room	407,816	22,255
Rural health clinics	944,200	130,630
Home health	-	700
Wellness Center	25,887	1,416
Residential living	115,479	9,730
Depreciation and amortization	-	658,121
Other personnel and benefits	(12,945)	1,324,854
Administrative and general	433,884	477,162
Plant operation and maintenance	67,714	174,724
Laundry and linen	16,564	2,610
Housekeeping	54,119	10,716
Dietary	163,459	115,655
Nursing administration	55,602	279
Medical records	136,079	8,505
	\$ 3,768,603	\$ 3,684,833
		\$ 7,453,436

2011		
Salaries	Other	Total
\$ 816,234	\$ 116,713	\$ 932,947
29,042	43,604	72,646
3,611	17,659	21,270
-	36,154	36,154
108,411	106,336	214,747
49,771	13,183	62,954
194,813	209,662	404,475
39	25,077	25,116
1,187	14,466	15,653
103,398	14,029	117,427
-	10,138	10,138
2,027	673	2,700
24,270	16,851	41,121
13,651	160,224	173,875
408,002	29,541	437,543
942,432	151,917	1,094,349
-	1,450	1,450
30,679	885	31,564
110,671	10,462	121,133
-	566,856	566,856
15,037	1,339,351	1,354,388
421,819	416,240	838,059
67,261	176,614	243,875
19,841	3,445	23,286
54,360	11,012	65,372
153,707	101,674	255,381
57,693	184	57,877
138,916	21,943	160,859
<u>\$ 3,766,872</u>	<u>\$ 3,616,343</u>	<u>\$ 7,383,215</u>

Hospital District No. 5 of Harper County, Kansas

Insurance Coverage

December 31, 2012

EMC Insurance Companies

Policy No. 3X1-82-27-13, expiring January 1, 2013:	
Blanket building and business personal property	\$ 16,638,431
Business interruption	2,000,000

KAMMCO

Policy No. HPL0015116, expiring January 1, 2013:	
General liability	3,000,000
Personal and advertising injury	1,000,000
Each occurrence	1,000,000
Employee benefit liability	250,000/250,000
Policy No. HPL0015116, expiring January 1, 2013:	
Professional liability	200,000/600,000
Stabilization fund	300,000/900,000
Miscellaneous employee professional liability	1,000,000/3,000,000

Allied World Assurance Company

Policy No. 0307-2186, expiring January 1, 2013:	
Directors and officers' liability	1,000,000

Travelers Casualty and Surety Company of America

Policy No. 105545385, expiring January 1, 2013:	
Employee dishonesty	100,000

Kansas Hospital Association Workers' Compensation Fund

Certificate No. 27, expiring January 1, 2013:	
Bodily injury by accident	500,000
Bodily injury by disease	500,000
Policy limit	500,000

Policies expiring January 2013 were renewed for another policy term.

Hospital District No. 5 of Harper County, Kansas
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2012

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	\$ 6,517,690	\$ 6,776,197	\$ (258,507)
Beginning of year patient accounts receivable and due to or from third-party payers	1,384,486	-	1,384,486
End of year patient accounts receivable and due to or from third-party payers	(1,340,749)	-	(1,340,749)
Electronic Health Records Incentive revenue	420,924	-	420,924
Other revenue	<u>104,767</u>	<u>80,000</u>	<u>24,767</u>
Total revenue	<u>7,087,118</u>	<u>6,856,197</u>	<u>230,921</u>
Operating expenses	7,453,436	7,912,256	(458,820)
Beginning of year accounts payable and accrued expenses	564,120	-	564,120
End of year accounts payable and accrued expenses	(543,642)	-	(543,642)
Depreciation and amortization	(658,121)	-	(658,121)
Principal paid on capital leases and bonds	408,825	-	408,825
Capital expenditures	123,859	-	123,859
Interest paid	<u>217,468</u>	<u>-</u>	<u>217,468</u>
Operating expenses	<u>7,565,945</u>	<u>7,912,256</u>	<u>(346,311)</u>
Operating loss	<u>(478,827)</u>	<u>(1,056,059)</u>	<u>577,232</u>
Property tax revenue	583,379	544,226	39,153
Interest income	515	1,000	(485)
Noncapital grants and gifts	74,013	10,000	64,013
Capital grants and gifts	<u>51,000</u>	<u>-</u>	<u>51,000</u>
Total nonoperating revenues	<u>708,907</u>	<u>555,226</u>	<u>153,681</u>
Excess (deficiency) of revenue over expenses	<u>\$ 230,080</u>	<u>\$ (500,833)</u>	<u>\$ 730,913</u>