

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2012 AND 2011

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2012 and 2011

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2012 and 2011. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$2,587,512 or 7.7 percent in 2012 as compared to a decrease of \$285,220 or 0.8 percent in 2011.

The Hospital reported an operating loss of \$3,382,609 in 2012. This compares to an operating loss of \$152,829 and \$673,123 in 2011 and 2010, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenue, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2012 and 2011

Assets, liabilities, and net position

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$16,009,149	\$18,266,446	\$17,475,951
Assets limited as to use	7,447,164	7,036,421	6,970,674
Capital assets, net	23,338,210	24,437,878	26,101,406
Other assets	<u>364,851</u>	<u>382,520</u>	<u>460,719</u>
Total assets	<u>47,159,374</u>	<u>50,123,265</u>	<u>51,008,750</u>
Liabilities			
Current liabilities	6,166,203	5,335,880	4,732,501
Long-term debt obligations	<u>10,079,345</u>	<u>11,286,047</u>	<u>12,489,691</u>
Total liabilities	<u>16,245,548</u>	<u>16,621,927</u>	<u>17,222,192</u>
Net position	<u>\$30,913,826</u>	<u>\$33,501,338</u>	<u>\$33,786,558</u>

The Hospital experienced another challenging year in 2012. While our balance sheet was impacted by current year operations, we continue to maintain sufficient liquidity to operate our Hospital. Our liquidity position when measured by the ratio of current assets to current liabilities was 2.6 in 2012, 3.4 in 2011, and 3.7 in 2010. Current assets declined by \$2,257,297 in 2012 and increased by \$790,495 in 2011. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents decreased from \$10.74 million in 2011 to \$8.66 million in 2012. This decline was driven principally from decline in operating results. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 44 days in 2012, 45 days in 2011, and 48 days in 2010. The other notable change in our balance sheet for the periods presented above is the decline in capital assets, net. This decline is a result of our annual depreciation provision exceeding expenditures for replacement of capital assets and equipment. This trend is expected to moderate as we anticipate higher capital spending in the future to replace aging equipment. We will also continue to make technology enhancements required to become a meaningful user of electronic health record technology. We expect that a portion of the electronic health record technology cost will be reimbursed under the Federal Government's incentive payment program.

Total liabilities declined in each of the years presented as compared with the previous year. The decline is due primarily to the change in long-term debt obligations which have declined as scheduled debt retirements have exceeded new debt obligations entered into by the Hospital. In March 2010, the Hospital advance refunded its previously outstanding bonds through the issuance of additional debt by the Lyon County Public Building Commission. This transaction reduced our overall borrowing costs.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2012 and 2011

Operating results and changes in net position

In 2012, the Hospital's net position declined by \$2,587,512, or 7.7 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Net patient service revenue	\$46,729,872	\$47,972,476	\$45,077,862
Other operating revenue	<u>1,585,394</u>	<u>1,498,113</u>	<u>2,310,575</u>
Total operating revenue	48,315,266	49,470,589	47,388,437
Operating expenses			
Salaries and wages	23,130,872	22,330,788	21,842,854
Employee benefits	8,021,262	6,477,057	6,059,408
Supplies and other expenses	17,393,194	17,651,125	16,405,566
Depreciation and amortization	<u>3,152,547</u>	<u>3,164,448</u>	<u>3,753,732</u>
Total operating expenses	51,697,875	49,623,418	48,061,560
Operating loss	(3,382,609)	(152,829)	(673,123)
Interest expense	(429,131)	(459,911)	(591,902)
Property taxes	441,166		
Other nonoperating revenues			
(expenses)	219,758	288,329	303,366
Capital grants and contributions	588,304	39,191	49,993
Transfers	<u>(25,000)</u>		
Decrease in net position	<u>\$ (2,587,512)</u>	<u>\$ (285,220)</u>	<u>\$ (911,666)</u>

The first component of the overall change in the Hospital's net position is the operating loss - generally, the difference between operating revenues and the expenses incurred to perform those services. The Hospital reported an increase in the operating loss of \$3,229,780 in 2012 as compared with 2011. This follows a decline in the loss reported of \$520,294 in 2011 as compared with 2010. The operating performance of our Hospital is influenced by utilization of services that we provide, which is affected by the health of our local economy, availability of physician services in our community, and patient access to health insurance coverage. We are also affected by payment adjustments that are implemented by Medicare and other significant third-party payors as well as the increased scrutiny that has been placed upon the coding and billing of claims. Total operating revenues decreased by 2.3 percent in 2012, after increasing by 4.4 percent in 2011 and increasing by 1.5 percent in 2010. Net revenues for 2012 were negatively impacted by billing adjustments initiated by the recovery audit contractor coupled with a continued decline in inpatient volumes. Net revenues for 2011 were positively impacted by the transfer of the Hospice operations from a separate entity to a department of the Hospital beginning in November 2010. We are focused on issues affecting utilization and our strategic plan has been to maintain the highest level of advanced medical technology, enhancing relations with existing physicians, and assisting with the recruitment of new physicians to

NEWMAN MEMORIAL COUNTY HOSPITAL
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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2012 and 2011

our community. One of our biggest challenges continues to be decreasing demand for inpatient Hospital services. The following table displays the number of inpatient days of service provided by the Hospital during the past four years and shows the continual decline in inpatient services:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acute care days	6,833	8,382	9,497	10,371
ICU days	447	514	634	587
Skilled days	1,372	1,443	1,566	1,651
Rehab days	1,137	1,226	951	1,045
Nursery days	<u>891</u>	<u>953</u>	<u>979</u>	<u>1,054</u>
Total inpatient days	<u>10,680</u>	<u>12,518</u>	<u>13,627</u>	<u>14,708</u>

Inpatient days have declined by 27 percent from 2009 to 2012. This trend has been seen nationally on a more moderate level as there is more emphasis on treating patients in an outpatient setting and there is greater regulatory focus on one day stays and readmissions.

We have been active in recruiting physicians to our community and have devoted resources to medical staff relations in an attempt to reverse the decline in inpatient volumes. Over the past several years, we have employed select physician practice groups that we feel are necessary to ensure that a full complement of services are available in our community.

The change in operating revenues from year to year has also been impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2012, 2011, and 2010, the Hospital qualified for Medicaid DSH payments in the amounts of \$2,464,145, \$1,938,418, and \$1,142,871. Eligibility for these payments is determined annually and is based upon numerous factors including the level of services provided to uninsured and Medicaid beneficiaries as compared with other Hospital providers in the State. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients. It is uncertain as to whether we will continue to receive this allocation in future years after the Federal Governments Health Care Reform mandate is implemented in 2014.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy that automatically provides a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 6.6 percent in 2012. This compares to 6.3 percent in 2011 and 7.6 percent in 2010. Total discounts granted to uninsured or charity care patients equaled \$3,797,783 in 2012 as compared to \$3,679,062 in 2011 and \$4,471,905 in 2010.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 3.6 percent in 2012, increased by 2.2 percent in 2011, and increased by 4.1 percent in 2010. The increase in salaries relates to changes in employment from offering new services.

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2012 and 2011

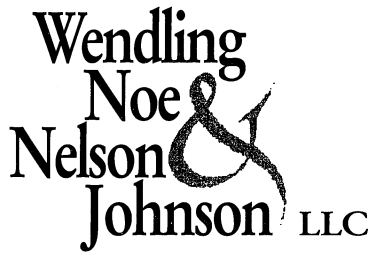
Employee benefits expense increased by 23.8 percent in 2012, increased by 6.9 percent in 2011, and increased by 9.9 percent in 2010. When measured as a percent of total salaries, these costs represent 34.7, 29.0, and 27.7 percent of total salaries in 2012, 2011, and 2010. The largest increase in benefit costs in 2012 as compared to 2011 was related to our health insurance expense. On January 1, 2012, we switched to a self-funded health insurance plan to help mitigate the large increase in insurance premiums. These costs were also impacted by an early retirement offer to certain eligible employees of the hospital. Health insurance expense increased approximately \$1,150,000 as compared to the prior year. Another significant continued increase in benefit costs is our contributions to KPERS. Total expense increased by approximately \$184,000, or 12 percent in 2012 as compared to 2011 and by \$160,000, or 13 percent in 2011 as compared to 2010. This expense is expected to remain elevated as the State continues to experience funding issues related to KPERS.

Supplies and other expenses decreased by \$257,931 or 1.5 percent in 2012, increased by \$1,245,559 or 7.6 percent in 2011, and decreased by \$430,509 or 2.6 percent in 2010. While we have experienced normal inflationary increases in the cost of goods and services each year, we have been very focused on making operational changes to reduce our costs and to become more flexible with changing volumes. The increases in 2011 were related to a \$370,000 increase in physician contract labor related to a new family practice clinic, an increase in emergency room physician contract labor of \$300,000, which was offset somewhat by lower emergency room physician salaries, a \$140,000 increase in information technology contract labor, and a \$130,000 increase in Hospice contract services.

Depreciation and amortization expenses decreased \$11,901, \$589,284, and \$398,540 in 2012, 2011, and 2010. The expense moderated in 2012 due to a larger capital acquisition budget as compared to 2011 and 2010. We expect the expense to continue to moderate or increase some in 2013 due to a large capital acquisition budget. Some of the future acquisitions will be funded through appropriations received from the county.

Interest expense decreased \$30,780 in 2012, \$131,991 in 2011, and \$280,510 in 2010. The annual decline is due to having lower outstanding principal amounts and lower interest rates due to the bond refinancing occurring in 2010.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA
Aaron L. Kuehn, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component units of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2012 and 2011, which collectively comprise the Hospital's financial statements as listed in the table of contents, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component units of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Roe Nelson & Johnson LLC

Topeka, Kansas
April 9, 2013

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL

D/B/A NEWMAN REGIONAL HEALTH

BALANCE SHEETS

December 31,

ASSETS

	2012		2011	
	<u>Hospital</u>	<u>Component Units</u>	<u>Hospital</u>	<u>Component Units</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 8,664,099	\$ 253,272	\$ 10,737,266	\$ 294,745
Short-term investments		3,922,769		3,561,069
Assets limited as to use	123,223		122,977	
Patient accounts receivable, net of estimated uncollectibles of \$1,693,000 in 2012 and \$1,697,000 in 2011	5,616,289		5,944,349	
Other receivables	129,333	30,973	14,080	355,913
Property tax receivable	17,938			
Inventories	1,043,900		970,636	
Prepaid expenses	361,950		477,138	
Estimated third-party payor settlements	52,417			
Total current assets	<u>16,009,149</u>	<u>4,207,014</u>	<u>18,266,446</u>	<u>4,211,727</u>
ASSETS LIMITED AS TO USE				
Internally designated for capital acquisitions	5,914,397		5,463,685	
Under bond indenture agreements - held by trustee	1,541,702		1,554,263	
By contributors				
For capital acquisition	60,000		80,000	
For scholarships	54,288		61,450	
	<u>7,570,387</u>		<u>7,159,398</u>	
Less amounts required to meet current obligations	<u>123,223</u>		<u>122,977</u>	
	<u>7,447,164</u>	<u>-</u>	<u>7,036,421</u>	<u>-</u>
CAPITAL ASSETS, net	<u>23,338,210</u>	<u>25,366</u>	<u>24,437,878</u>	
OTHER ASSETS				
Deferred financing costs	159,921		198,245	
Other receivables	204,930		184,275	
	<u>364,851</u>	<u>-</u>	<u>382,520</u>	<u>-</u>
	<u>\$ 47,159,374</u>	<u>\$ 4,232,380</u>	<u>\$ 50,123,265</u>	<u>\$ 4,211,727</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2012		2011	
	<u>Hospital</u>	<u>Component Units</u>	<u>Hospital</u>	<u>Component Units</u>
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 1,208,584	\$ 74,347	\$ 940,034	\$ 7,606
Accrued salaries and payroll taxes	1,069,268		975,604	
Interest payable	29,050		30,892	
Current maturities of long-term debt	1,217,643		1,377,597	
Accrued vacation and other employee benefits	1,784,070		1,536,531	
Accrued health insurance claims	517,000			
Estimated liability for receivables sold with recourse	87,000		91,000	
Estimated third-party payor settlements	253,588		384,222	
Total current liabilities	<u>6,166,203</u>	<u>74,347</u>	<u>5,335,880</u>	<u>7,606</u>
LONG-TERM DEBT, net of current maturities				
	<u>10,079,345</u>		<u>11,286,047</u>	
Total liabilities	<u>16,245,548</u>	<u>74,347</u>	<u>16,621,927</u>	<u>7,606</u>
NET POSITION				
Invested in capital assets - net of related debt	12,041,222		11,774,234	
Restricted				
For debt service	1,541,702		1,554,263	
For capital acquisition	60,000		80,000	
For specific operating activities	57,215	3,396,608	75,628	3,469,741
Nonexpendable permanent endowments		389,028		375,056
Unrestricted	<u>17,213,687</u>	<u>372,397</u>	<u>20,017,213</u>	<u>359,324</u>
	<u>30,913,826</u>	<u>4,158,033</u>	<u>33,501,338</u>	<u>4,204,121</u>
	<u>\$ 47,159,374</u>	<u>\$ 4,232,380</u>	<u>\$ 50,123,265</u>	<u>\$ 4,211,727</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year ended December 31,

	2012		2011	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Operating revenues				
Net patient service revenue	\$ 46,729,872	\$ -	\$ 47,972,476	\$ -
Other	<u>1,585,394</u>		<u>1,498,113</u>	
Total operating revenues	<u>48,315,266</u>	<u>-</u>	<u>49,470,589</u>	<u>-</u>
Operating expenses				
Salaries and wages	23,130,872		22,330,788	
Employee benefits	8,021,262		6,477,057	
Supplies and other expenses	17,393,194		17,651,125	
Depreciation and amortization	<u>3,152,547</u>		<u>3,164,448</u>	
Total operating expenses	<u>51,697,875</u>	<u>-</u>	<u>49,623,418</u>	<u>-</u>
Operating loss	<u>(3,382,609)</u>	<u>-</u>	<u>(152,829)</u>	<u>-</u>
Nonoperating revenues (expenses)				
Investment income	182,938	378,948	155,556	(14,149)
Interest expense	(429,131)		(459,911)	
Noncapital grants and contributions	72,045	218,860	149,456	682,414
Property taxes	441,166			
Other	<u>(35,225)</u>	<u>(668,896)</u>	<u>(16,683)</u>	<u>(205,026)</u>
Total nonoperating (expenses) revenues	<u>231,793</u>	<u>(71,088)</u>	<u>(171,582)</u>	<u>463,239</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	(3,150,816)	(71,088)	(324,411)	463,239
Capital grants and contributions	588,304		39,191	
Transfer of net position	<u>(25,000)</u>	<u>25,000</u>		
Increase (decrease) in net position	(2,587,512)	(46,088)	(285,220)	463,239
Net position, beginning of year	<u>33,501,338</u>	<u>4,204,121</u>	<u>33,786,558</u>	<u>3,740,882</u>
Net position, end of year	<u>\$ 30,913,826</u>	<u>\$ 4,158,033</u>	<u>\$ 33,501,338</u>	<u>\$ 4,204,121</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2012		2011	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 46,870,881	\$ -	\$ 48,158,147	\$ 2,419
Payments to or on behalf of employees	(30,293,931)		(28,572,642)	
Payments to suppliers	(17,201,424)	66,741	(17,825,592)	
Other receipts and payments	<u>1,449,486</u>		<u>1,547,522</u>	
Net cash provided by operating activities	<u>825,012</u>	<u>66,741</u>	<u>3,307,435</u>	<u>2,419</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	92,045	543,288	69,456	333,348
Other	(10,221)	(668,896)	(5,732)	(204,540)
Transfers	<u>(25,000)</u>	<u>25,000</u>		
Net cash provided (used) by noncapital financing activities	<u>56,824</u>	<u>(100,608)</u>	<u>63,724</u>	<u>128,808</u>
Cash flows from capital and related financing activities				
Property taxes	423,228			
Purchase of capital assets	(1,958,337)	(25,451)	(1,530,951)	
Grants and contributions for capital	588,304		39,191	
Proceeds from sale of equipment	2,520		22,741	
Issuance of long-term debt			542,500	
Interest paid on capital related debt	(377,908)		(407,615)	
Principal payments on long-term debt	<u>(1,377,597)</u>		<u>(1,619,987)</u>	
Net cash used by capital and related financing activities	<u>(2,699,790)</u>	<u>(25,451)</u>	<u>(2,954,121)</u>	<u>-</u>
Cash flows from investing activities				
Change in assets limited as to use	(437,190)		18,007	
Change in short-term investments		(99,361)		(1,983,759)
Interest received	<u>181,977</u>	<u>117,206</u>	<u>166,909</u>	<u>53,499</u>
Net cash provided (used) by investing activities	<u>(255,213)</u>	<u>17,845</u>	<u>184,916</u>	<u>(1,930,260)</u>
Change in cash and cash equivalents	(2,073,167)	(41,473)	601,954	(1,799,033)
Cash and cash equivalents at beginning of year	<u>10,737,266</u>	<u>294,745</u>	<u>10,135,312</u>	<u>2,093,778</u>
Cash and cash equivalents at end of year	<u>\$ 8,664,099</u>	<u>\$ 253,272</u>	<u>\$ 10,737,266</u>	<u>\$ 294,745</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2012		2011	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Reconciliation of operating loss to net cash provided by operating activities				
Operating loss	\$ (3,382,609)	\$ -	\$ (152,829)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation and amortization	3,152,547		3,164,448	
Provision for bad debts	2,890,114		2,870,774	
Changes in				
Patient accounts receivable	(2,562,054)		(2,932,677)	2,419
Inventories	(73,264)		(54,341)	
Prepaid expenses	115,188		(104,363)	
Accounts payable and accrued expenses	1,008,049	66,741	219,440	
Estimated third-party payor settlements	(183,051)		254,574	
Estimated liability for receivables sold	(4,000)		(7,000)	
Other receivables	(135,908)		49,409	
Net cash provided by operating activities	<u>\$ 825,012</u>	<u>\$ 66,741</u>	<u>\$ 3,307,435</u>	<u>\$ 2,419</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains and (losses) on investments	\$ 9,422	\$ 262,230	\$ (18,979)	\$ (73,391)

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component units discussed in Note A2 are included in the Hospital's reporting entity because of the significance of their operational relationship with the Hospital.

The Hospital has entered into a management agreement with Quorum Health Resources (QHR) for the operation of the Hospital. Under the agreement, QHR agrees to manage the daily operations of the Hospital and to provide the Hospital with the services of a chief executive officer employed by QHR. The Hospital Board of Trustees retains all authority and control over the business, policies, operations, and assets of the Hospital.

2. Component units

The financial statements include a discrete presentation of financial data of the Hospital's component units. They are reported in a separate column to emphasize that they are legally separate from the Hospital. The governing bodies of these component units are appointed by the Hospital and can be removed by the Hospital's board at will.

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation. The Foundation's purpose is to conduct its operations for the benefit and to carry out the purposes of the Hospital in the betterment and enhancement of the health care services for the citizens of the community. The Hospital is the sole voting member of the Foundation.

The Foundation is the sole voting member of Hand In Hand Homecare and Hospice, Inc. (the Hospice), a not-for-profit member corporation whose operations were transferred to a department of the Hospital on November 1, 2010. The assets held by the Hospice on that date, with the exception of a nominal amount, were transferred to the Foundation and are held for the benefit of Hospice patients. The financial data of the Hospice is included as a component unit in the financial statements.

Newman Medical Services, Inc. (NMSI), is a not-for profit corporation which operates a physician clinic. The Hospital is the sole voting member of NMSI.

The component units' financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience by type of payor.

7. Property taxes

The County approved a property tax levy for the Hospital to be used for capital acquisitions. The taxes are levied in November of each year with the Hospital receiving funds beginning in January of the following year. The property tax revenue is recognized in full the year following the year the taxes were levied which is the year in which use is first permitted.

8. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

9. Investments and investment income

Investments in debt and equity securities with readily determinable fair values are measured at fair value in the balance sheet. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; and assets restricted by donors for capital acquisitions and scholarships.

11. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

12. Cost of borrowing

Interest costs including amortization of deferred financing costs and bond discounts, incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the interest method.

13. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees (see Note G). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

15. Workers' compensation self-insurance fund

The Hospital has entered into a self-insured trust agreement with the KHA Workers' Compensation Fund, Inc., along with other qualified hospitals in the state of Kansas. The purpose of this trust is to provide workers' compensation insurance to members at or near cost. To the extent the trust would be unable to meet its claims liabilities, members have, jointly and severally, agreed to pay for all claims.

16. Net position

The net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note C. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

17. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

18. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

19. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges written off and the estimated cost of providing charity care by the Hospital is disclosed in Note B.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, rehabilitation, and swing-bed care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per day. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Most services rendered on an outpatient basis are paid at prospectively determined rates based on the patient's ambulatory payment classification. The Hospital receives pass-through cost reimbursement for its school of nursing program. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare contractor through December 31, 2009.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. In addition to these payments, the Hospital qualified for Medicaid access payments, as well as Medicaid disproportionate share hospital payments, in both years presented.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 101,551,808	\$ 104,206,510
Deductions from patient service revenue		
Third-party contractual adjustments	(50,800,570)	(51,746,077)
Medicaid DSH and access payments	2,821,664	2,200,504
Provision for bad debts	(2,890,114)	(2,870,774)
Charity care	(2,359,900)	(2,256,232)
Uninsured discounts	(1,437,883)	(1,422,831)
Other discounts and allowances	<u>(155,133)</u>	<u>(138,624)</u>
Net patient service revenue	<u>\$ 46,729,872</u>	<u>\$ 47,972,476</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 39 percent and 12 percent, respectively, of the Hospital's net patient revenue during 2012 and 40 percent and 10 percent, respectively, of the Hospital's net patient revenue during 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in future years.

Net patient service revenue was reduced in 2012 and 2011 by \$961,435 and \$269,684 to reflect denials of claims audited by recovery audit contractors for services rendered to patients in previous years.

During April 2012, CMS entered into a settlement agreement with certain hospitals who claimed CMS had been improperly calculating Medicare inpatient payments made to certain hospitals for many years. The Hospital was included in the group of hospitals that entered into a settlement agreement with CMS. The agreement resulted in a payment to the Hospital of approximately \$534,000. This amount is included in net patient service revenue on the statement of operations.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$986,970 and \$987,226 for 2012 and 2011, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE C - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue (Note E) and consist of the following:

	<u>2012</u>	<u>2011</u>
Principal and interest sinking fund	\$ 123,223	\$ 122,977
Bond reserve fund	<u>1,418,479</u>	<u>1,431,286</u>
	<u>\$1,541,702</u>	<u>\$1,554,263</u>

Assets are invested by the trustee as follows:

	<u>2012</u>	<u>2011</u>
Money Market Treasury Fund	\$ 123,223	\$ 159,228
U.S. Government and Agency obligations at fair value	1,410,204	1,388,145
Interest receivable	<u>8,275</u>	<u>6,890</u>
	<u>\$1,541,702</u>	<u>\$1,554,263</u>

Income earned on bond reserve funds may be transferred to the respective principal and interest sinking fund to pay a portion of the interest on the bonds. The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Internally designated

The Hospital's Board of Trustees has designated certain investments to be used for future capital improvements. These assets, which consist of invested cash and accrued interest, may be used for other purposes by action of the Board of Trustees.

By contributors

These assets include funds received or receivable from contributors that have been specifically designated for use for capital improvements or nursing scholarships.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE D - CAPITAL ASSETS - HOSPITAL

	Balance December 31, <u>2011</u>	Transfers and additions	Retirements	Balance December 31, <u>2012</u>
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	542,194			542,194
Buildings	34,235,161	143,228		34,378,389
Medical office building	11,443,849	45,607		11,489,456
Fixed equipment	9,468,938	2,295		9,471,233
Future expansion property	757,610			757,610
Leasehold improvements	225,930	30,544		256,474
Major movable equipment	20,741,006	1,550,703	338,103	21,953,606
Intangibles	<u>25,000</u>			<u>25,000</u>
Totals at historical cost	<u>78,083,201</u>	<u>1,772,377</u>	<u>338,103</u>	<u>79,517,475</u>
Less accumulated depreciation and amortization for				
Land improvements	352,759	22,009		374,768
Buildings	22,026,160	1,440,153		23,466,313
Medical office building	5,602,943	421,217		6,024,160
Fixed equipment	7,466,886	341,681		7,808,567
Leasehold improvements	12,867	32,924		45,791
Major movable equipment	18,356,686	886,229	313,941	18,928,974
Intangibles	<u>13,888</u>	<u>8,334</u>		<u>22,222</u>
Total accumulated depreciation and amortization	<u>53,832,189</u>	<u>3,152,547</u>	<u>313,941</u>	<u>56,670,795</u>
	24,251,012	(1,380,170)	24,162	22,846,680
Projects in progress	<u>186,866</u>	<u>304,664</u>		<u>491,530</u>
Capital assets, net	<u>\$ 24,437,878</u>	<u>\$ (1,075,506)</u>	<u>\$ 24,162</u>	<u>\$ 23,338,210</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE D - CAPITAL ASSETS - HOSPITAL - Continued

	Balance December 31, 2010	Transfers and additions	Retirements	Balance December 31, 2011
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	612,121	3,406	73,333	542,194
Buildings	34,282,108	9,661	56,608	34,235,161
Medical office building	11,443,849			11,443,849
Fixed equipment	10,194,391	2,025	727,478	9,468,938
Future expansion property	761,016	(3,406)		757,610
Leasehold improvements		225,930		225,930
Major movable equipment	21,253,069	1,150,401	1,662,464	20,741,006
Intangibles	25,000			25,000
Totals at historical cost	<u>79,215,067</u>	<u>1,388,017</u>	<u>2,519,883</u>	<u>78,083,201</u>
Less accumulated depreciation and amortization for				
Land improvements	399,047	27,045	73,333	352,759
Buildings	20,619,863	1,462,905	56,608	22,026,160
Medical office building	5,174,029	428,914		5,602,943
Fixed equipment	7,827,259	363,978	724,351	7,466,886
Future expansion property	3,406	(3,406)		
Leasehold improvements		12,867		12,867
Major movable equipment	19,128,434	863,812	1,635,560	18,356,686
Intangibles	5,555	8,333		13,888
Total accumulated depreciation and amortization	<u>53,157,593</u>	<u>3,164,448</u>	<u>2,489,852</u>	<u>53,832,189</u>
Projects in progress	26,057,474 43,932	(1,776,431) 142,934	30,031	24,251,012 186,866
Capital assets, net	<u>\$ 26,101,406</u>	<u>\$ (1,633,497)</u>	<u>\$ 30,031</u>	<u>\$ 24,437,878</u>

The Hospital has outstanding commitments to purchase property and equipment of approximately \$3,175,000 at December 31, 2012.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE E - LONG-TERM DEBT

Long-term debt obligations consist of the following:

	<u>2012</u>	<u>2011</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2010-A, issued March 1, 2010, in the original amount of \$14,120,000, 2.00% to 4.00% bonds due serially through December 1, 2021, net of unamortized premium of \$17,444	\$ 11,267,445	\$ 12,376,625
2.99% note payable to bank entered into April 29, 2011, in the original amount of \$542,500, payable in equal monthly installments of \$23,317, including interest, through April 29, 2013, collateralized by equipment with an amortized cost of \$345,627 at December 31, 2012	<u>92,642</u>	<u>365,239</u>
Unamortized deferred refunding loss	11,360,087 <u>(63,099)</u>	12,741,864 <u>(78,220)</u>
Less current maturities of long-term debt	11,296,988 <u>1,217,643</u>	12,663,644 <u>1,377,597</u>
Long-term debt, net of current maturities	<u>\$ 10,079,345</u>	<u>\$ 11,286,047</u>

The following is a summary of changes in long-term debt:

	<u>Hospital revenue bonds</u>	<u>Notes payable</u>	<u>Total</u>
Outstanding at January 1, 2011	\$ 13,466,216	\$ 357,726	\$ 13,823,942
Long-term debt incurred		542,500	542,500
Principal payments	(1,085,000)	(534,987)	(1,619,987)
Amortization of premium	<u>(4,591)</u>		<u>(4,591)</u>
Outstanding at December 31, 2011	12,376,625	365,239	12,741,864
Principal payments	(1,105,000)	(272,597)	(1,377,597)
Amortization of premium	<u>(4,180)</u>		<u>(4,180)</u>
Outstanding at December 31, 2012	<u>\$ 11,267,445</u>	<u>\$ 92,642</u>	<u>\$ 11,360,087</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE E - LONG-TERM DEBT - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,217,643	\$ 349,180	\$ 1,566,823
2014	1,150,000	326,103	1,476,103
2015	1,180,000	297,353	1,477,353
2016	1,210,000	264,902	1,474,902
2017	1,250,000	228,603	1,478,603
2018 - 2022	<u>5,352,444</u>	<u>497,610</u>	<u>5,850,054</u>
	<u>\$ 11,360,087</u>	<u>\$ 1,963,751</u>	<u>\$ 13,323,838</u>

The Series 2010-A bonds are special obligations of Lyon County Public Building Commission and are payable from the net revenues of the Hospital. The net revenues of the Hospital are irrevocably pledged to the payment of the Series 2010-A bonds and interest thereon.

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds.

As a result of the 2010 refunding, a deferred refunding loss of \$108,375 was recognized for the difference between book value of the refunded debt and the amount required to extinguish the debt. This loss is netted against long-term debt and is amortized over the term of the related debt.

The indenture agreement for the bonds requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

NOTE F - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-800-275-5737.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE F - DEFINED BENEFIT PENSION PLAN - Continued

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers.

The employer rates established by statute at December 31, 2012 and 2011, are 8.09 percent and 7.49 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2012 and 2011, were \$1,734,085 and \$1,549,901, respectively, equal to the statutory required contributions for each year.

NOTE G - EMPLOYEE HEALTH INSURANCE CLAIMS

On January 1, 2012, the Hospital became self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$295,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

The following is a summary of the activity under this arrangement for the year ended December 31, 2012:

Estimated employee health insurance claims payable at beginning of period	\$ -
Provision for employer's share of incurred claims expenses for the period	4,178,748
Employee contributions	785,582
Payments made for claims, expenses, and reinsurance	<u>(4,447,330)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 517,000</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE H - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2012</u>	<u>2011</u>
Total interest incurred	\$ 379,866	\$ 405,808
Amortization of deferred financing costs	38,324	42,088
Amortization of bond premium	(4,180)	(4,591)
Amortization of deferred refunding loss	<u>15,121</u>	<u>16,606</u>
Interest expense	<u>\$ 429,131</u>	<u>\$ 459,911</u>

NOTE I - RELATED ORGANIZATIONS

The Hospital contracts for management services, services of certain management personnel, and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Hospital, with ultimate control over the assets and operations of the Hospital retained by the Hospital's board. For the years ended December 31, 2012 and 2011, the Hospital expensed \$427,998 and \$414,488, respectively, for management services provided by QHR. The Hospital also reimburses QHR for salaries, benefits, and expenses of the chief executive officer (Note A1).

NOTE J - LEASE COMMITMENTS

Space is leased in the hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2012 and 2011, was \$563,411 and \$587,256, respectively. Future minimum lease payments receivable under these agreements as of December 31, 2012, are as follows:

Year ending December 31,	
2013	\$ 349,248
2014	329,175
2015	329,175
2016	329,175
2017	<u>48,924</u>
	<u>\$ 1,385,697</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE J - LEASE COMMITMENTS - Continued

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Total rent expense for the years ending December 31, 2012 and 2011 were \$203,574 and \$275,647, respectively. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are as follows:

Year ending December 31,	
2013	\$ 55,234
2014	54,234
2015	<u>41,028</u>
	<u>\$ 150,496</u>

NOTE K - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$14,625,108 and the bank balance was \$14,842,175 at December 31, 2012. The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 1,027,108
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>13,815,067</u>
	<u>\$ 14,842,175</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE L - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	44%	34%
Medicaid	7	13
Blue Cross	16	13
Commercial insurance	16	19
Workers' compensation	1	2
Self-pay	<u>16</u>	<u>19</u>
	<u>100%</u>	<u>100%</u>

NOTE M - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2013 for the policy period from January 1, 2013 to December 31, 2013.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE N - RECEIVABLES SOLD WITH RECOURSE

The Hospital has agreements with local financial institutions under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2012 and 2011 amounted to approximately \$461,000 and \$406,000, respectively. At December 31, 2012 and 2011, approximately \$621,000 and \$540,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2012 and 2011, of \$87,000 and \$91,000, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2012 and 2011

NOTE O - CONTINGENCIES

As discussed in Note A5, the Hospital self insures its exposure to workers' compensation liabilities through a group trust with other qualified hospitals. The Hospital is contingently liable with the other members should the trust's assets ever be insufficient to meet the liabilities of the trust. Any additional liability due to the trust is shared among all members of the trust based upon the individual member's modification rating. Management has assessed the financial condition of the trust and believes that the trust is sufficiently funded to meet its liabilities as they come due as of December 31, 2012.

NOTE P - SHORT-TERM INVESTMENTS

The component unit's investment securities are carried at fair market value based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The investments are classified as available for sale. The cost and unrealized gains (losses) of the component unit's short-term investments are summarized as follows:

	2012			2011		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock mutual funds	\$ 1,152,754	\$ 40,428	\$ 1,193,182	\$ 1,159,462	\$ (89,563)	\$ 1,069,899
Common stock	1,100,706	153,932	1,254,638	968,647	38,666	1,007,313
Fixed income mutual funds	372,797	8,557	381,354	545,467	(1,157)	544,310
U.S. Government and Agency obligations	277,308	2,856	280,164	402,253	4,704	406,957
Corporate bonds	<u>783,959</u>	<u>29,472</u>	<u>813,431</u>	<u>512,224</u>	<u>20,366</u>	<u>532,590</u>
	<u>\$ 3,687,524</u>	<u>\$ 235,245</u>	<u>\$ 3,922,769</u>	<u>\$ 3,588,053</u>	<u>\$ (26,984)</u>	<u>\$ 3,561,069</u>

NOTE Q - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent accountants' report, which is the date the financial statements were available to be issued.