

**Wilson County Hospital d/b/a Wilson Medical Center  
A Component Unit of Wilson County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**December 31, 2012 and 2011**

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

Board of Trustees  
Wilson County Hospital d/b/a Wilson Medical Center  
Neodesha, Kansas

We have audited the accompanying financial statements of Wilson County Hospital d/b/a Wilson Medical Center (Hospital) and its discretely presented component unit (Wilson Medical Center Foundation or "Foundation"), collectively a component unit of Wilson County, Kansas, which comprise the balance sheets (Hospital) and statements of financial position (Foundation) as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position (Hospital), activities (Foundation), changes in net assets (Foundation) and cash flows (Hospital) 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 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 and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wilson County Hospital d/b/a Wilson Medical Center and its discretely presented component unit as of December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows thereof, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. 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 basic financial statements and other knowledge we obtained during our audits of the basic 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.

*BKD, LLP*

Wichita, Kansas  
May 30, 2013

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2012 and 2011**

***Introduction***

This management's discussion and analysis of the financial performance of Wilson County Hospital d/b/a Wilson Medical Center (the "Hospital") provides an overview of the Hospital's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

***Financial Highlights***

- Cash and short-term investments decreased in 2012 by \$2,215,700 or 90.3% and increased in 2011 by \$862,108 or 54.2%.
- The Hospital's net position decreased \$687,913 and \$43,818 in 2012 and 2011, respectively.
- The Hospital reported an operating loss in 2012 of \$376,225 and operating income in 2011 of \$212,932.

***Using This Annual Report***

The Hospital's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any 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 and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's 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 total net position – the difference between assets and liabilities – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

### ***The Hospital's Net Position***

The Hospital's net position are the difference between its assets and liabilities reported in the Balance Sheet. As shown in Table 2, the Hospital's net position decreased by \$687,913 and \$43,818 in 2012 and 2011, respectively.

***Table 1: Assets, Liabilities and Net Position***

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Cash and short-term investments	\$ 236,701	\$ 2,452,401	\$ 1,590,293
Patient accounts receivable, net	1,365,196	2,319,001	1,427,258
Other current assets	2,349,562	929,988	996,927
Capital assets, net	10,597,341	10,840,590	10,960,468
Other noncurrent assets	1,074,112	1,094,661	1,139,748
Total assets	<u>\$ 15,622,912</u>	<u>\$ 17,636,641</u>	<u>\$ 16,114,694</u>
<b>Liabilities</b>			
Long-term debt	\$ 12,288,617	\$ 12,309,428	\$ 12,351,422
Current liabilities	2,475,460	3,780,465	2,172,706
Total liabilities	<u>14,764,077</u>	<u>16,089,893</u>	<u>14,524,128</u>
<b>Net Position</b>			
Net investment in capital assets	(2,005,576)	(1,709,447)	(1,739,148)
Restricted expendable	1,150,707	1,141,232	1,136,151
Unrestricted	1,713,704	2,114,963	2,193,563
Total net position	<u>858,835</u>	<u>1,546,748</u>	<u>1,590,566</u>
Total liabilities and net position	<u>\$ 15,622,912</u>	<u>\$ 17,636,641</u>	<u>\$ 16,114,694</u>

## **2012**

A significant change in the Hospital's assets in 2012 is the decrease in patient accounts receivable. Although net patient service revenues increased in 2012 by \$177,515 (1.6%) as compared to 2011, net patient accounts receivable decreased by \$953,805 (41.1%) at December 31, 2012 versus December 31, 2011. The decrease computes to approximately 32 days of net patient service revenue. This decrease is associated with the collection in 2012 of several large Medicare claims from 2011 delayed by requests for records. The decrease is also related to a combination of lower gross patient revenues in 2012 and lower interim Medicare payment rates put into place in August of 2012.

Another significant change in the Hospital's assets in 2012 is the decrease in cash and short-term investments of \$2,215,700 (90.3%) as compared to 2011. This decrease was primarily related to a decrease in interim Medicare reimbursement rates coupled with lower gross patient revenue in 2012. The decreased Medicare interim reimbursement also resulted in an increase in the estimated amounts due from Medicare in the Hospital's 2012 Medicare cost report. The cost report receivable is reflected in current assets (estimated amount due from third-party payers). The Hospital received \$772,000 of this estimated amount in January 2013. The decrease in cash and short term investments was also impacted by an increase in salaries, supplies, and other expenses of over \$500,000 in 2012. These increases in operating expenses were largely driven by the Hospital's ongoing implementation of a new financial and clinical information system in 2012 with the goal of establishing an Electronic Medical Record (EMR) in 2013.

## **2011**

A significant change in the Hospital's assets in 2011 is the increase in patient accounts receivable. Although net patient service revenues increased in 2011 by \$409,663 (4.0%) as compared to 2010, net patient accounts receivable increased by \$891,743 (62.4%) at December 31, 2011 versus December 31, 2010. The increase computes to approximately 31 days of net patient service revenue. The increase related primarily to delays in payment on Medicare services as a result in requests of records on several large claims. These claims were subsequently paid in 2012.

Another significant change in the Hospital's assets in 2011 is the increase in cash and short-term investments of \$862,108 (54.2%) as compared to 2010. This resulted primarily from an increase in Medicare outpatient revenue and the related reimbursement. The increased interim reimbursement also resulted in an increase in the estimated amounts due to Medicare in the Hospital's 2011 Medicare cost report. The cost report payable is reflected in the other current liabilities.

One other significant change in the Hospital's financial position in 2011 was the increase in capital assets and related capital lease obligations for the acquisition of new equipment, as discussed in the *Capital Assets* section below.

### ***Operating Results and Changes in the Hospital's Net Position***

As shown in Table 2, the Hospital's net position decreased by \$687,913 in 2012 and \$43,818 in 2011. The decrease is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 10,746,400	\$ 10,568,885	\$ 10,159,222
Other operating revenues	113,128	104,013	109,818
Total operating revenues	10,859,528	10,672,898	10,269,040
<b>Operating Expenses</b>			
Salaries and wages	4,751,080	4,461,274	4,573,012
Supplies and other	5,227,721	4,974,468	5,022,223
Depreciation and amortization	1,256,952	1,024,224	959,936
Total operating expenses	11,235,753	10,459,966	10,555,171
<b>Operating Income (Loss)</b>	(376,225)	212,932	(286,131)
<b>Nonoperating Revenues (Expenses)</b>			
Tax appropriations	351,715	365,155	391,502
Investment income	15,987	23,242	55,745
Contributions and grants	-	19,261	38,669
Contributions received from the Wilson Medical Center Foundation for operations	-	4,538	-
Interest expense	(692,575)	(700,531)	(709,955)
Other nonoperating revenues and expenses, net	-	-	(41,977)
Total nonoperating revenues (expenses)	(324,873)	(288,335)	(266,016)
<b>Capital Gifts and Transfers</b>			
Capital contributions, net	-	-	274,166
Contributions received from the Wilson Medical Center Foundation for property and equipment	13,185	31,585	-
Transfer to Wilson Medical Center Foundation	-	-	(2,115,853)
Total capital gifts and transfers	13,185	31,585	(1,841,687)
<b>Decrease in Net Position</b>	<u>\$ (687,913)</u>	<u>\$ (43,818)</u>	<u>\$ (2,393,834)</u>



## ***Operating Income and Losses***

The first component of the overall change in the Hospital's net position is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital also receives tax appropriations to provide additional resources to enable the facility to serve lower income and other residents.

The operating loss for 2012 was \$376,225 compared to operating income of \$212,932 in 2011; a decrease of \$589,157.

### **2012**

The primary components of the decreased operating income in 2012 are:

- An increase in net patient service revenue of \$177,515 or 1.6%.
- An increase in salaries and wages for the Hospital's employees of \$289,806 or 6.5%.
- An increase in supplies and other expenses of \$253,253 or 5.1%.
- An increase in depreciation and amortization of \$232,728 or 22.7%

Net patient service revenue increased primarily because of the cost reimbursement impact of the increase in overall operating expenses.

Employee salaries and wages increased in 2012 in connection with the staffing and training required for the implementation of the new financial and clinical information system as previously discussed.

The increase in supplies and other expenses was also primarily the result of technology and consulting costs associated with the new financial and clinical information system.

Depreciation expense increased in 2012 primarily due to the information system modules which were placed in service during 2012.

### **2011**

The primary components of the increased operating income in 2011 are:

- An increase in net patient service revenue of \$409,663 or 4.0%.
- A decrease in salaries and wages for the Hospital's employees of \$111,738 or 2.4%.
- A decrease in supplies and other expenses of \$47,755 or 1.0%.

Net patient service revenue increased primarily because of a large increase in outpatient Medicare revenue in the Hospital's wound care center.

Employee salaries and wages decreased in 2011 in connection with the several retirements and resignations of Hospital staff that were not replaced.

The decrease in supplies and other expenses was primarily the result of purchasing capital equipment to replace equipment being rented or charged for on a per use basis such as the CT scanner and ultrasound equipment.

### ***Transfer to Wilson Medical Center Foundation***

The Neodesha Community Foundation, Inc. (NCF) has been established to benefit the community of Neodesha. Certain assets received by NCF were intended to be used solely to benefit the Hospital. On behalf of the Hospital, a separate corporate entity, Wilson Medical Center Foundation (Foundation) was established during 2007 and the application to obtain Internal Revenue Code Section 501(c)(3) status was approved during 2009. As a result of the establishment of the Foundation, the assets held by NCF on behalf of the Hospital were transferred to the Foundation on December 22, 2010.

The transfer consisted of the following:

Noncurrent cash and investments	\$ 1,215,686
Property and equipment, net	920,495
Liabilities	(20,328)
Net assets	(2,115,853)

The Foundation is a legally separate nonprofit corporation organized and operated for the exclusive benefit and support of the Hospital. The governing body of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the Hospital. Because these resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating income and losses and nonoperating revenues and expenses for 2012, and 2011, discussed earlier, with the following exceptions:

- Cash provided by operating activities decreased in 2012 because of reduced interim Medicare reimbursement rates put into effect in 2012. As noted above, the decrease in interim reimbursement is expected to result in an increased receivable in the 2012 Medicare cost report which is included in current assets.
- Cash provided by operating activities increased in 2011 because of additional interim Medicare reimbursement from significantly higher outpatient Medicare charges. As noted above, the increase in interim reimbursement is expected to result in an increased liability in the 2011 Medicare cost report which is included in current liabilities.

### ***Capital Assets***

At December 31, 2012 and 2011, the Hospital had \$10,597,341 and \$10,840,590, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Hospital purchased new equipment costing \$1,007,205 compared to \$898,034 in 2011. Of the 2012 and 2011 additions, \$625,000 and \$613,883, respectively, were acquired through incursion of capital lease obligations. The Hospital has recently found it more economical to lease certain equipment principally due to low interest rates provided by local financial institutions.

***Debt***

At December 31, 2012 and 2011, the Hospital had \$12,845,179 and \$12,808,113, respectively, in revenue bonds, special assessments payable and capital lease obligations outstanding. Except for capital leases of \$625,000 initiated in 2012 and \$613,883 initiated in 2011, the Hospital issued no new debt in 2012 and 2011. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Chief Financial Officer by telephoning 620.325.8388.

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**

**Balance Sheets**  
**December 31, 2012 and 2011**

**Assets**

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash	\$ 236,701	\$ 2,202,401
Short-term investments	-	250,000
Investments held by trustee for debt service	297,677	287,592
Patient accounts receivable, net	1,365,196	2,319,001
Estimated amounts due from third-party payers	1,693,231	225,000
Taxes receivable	22,081	20,705
Other receivables	34,637	28,826
Supplies	249,134	250,247
Prepaid expenses	<u>52,802</u>	<u>117,618</u>
Total current assets	<u>3,951,459</u>	<u>5,701,390</u>
 <b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	<u>853,030</u>	<u>853,640</u>
 <b>Capital Assets, Net</b>	<u>10,597,341</u>	<u>10,840,590</u>
 <b>Deferred Financing Costs</b>	<u>221,082</u>	<u>241,021</u>
Total assets	<u><u>\$ 15,622,912</u></u>	<u><u>\$ 17,636,641</u></u>

## Liabilities and Net Position

	2012	2011
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 578,636	\$ 534,758
Notes payable to Foundation	238,999	238,451
Accounts payable	1,033,454	1,041,990
Accrued interest payable	203,820	207,945
Salaries payable	204,231	118,466
Payroll taxes payable	14,203	50,705
Accrued vacation benefits	202,117	188,150
Estimated amounts due to third-party payers	-	1,400,000
Total current liabilities	2,475,460	3,780,465
<b>Noncurrent Liabilities</b>		
Long-term debt	12,266,543	12,273,355
Notes payable to Foundation	22,074	36,073
Total noncurrent liabilities	12,288,617	12,309,428
Total liabilities	14,764,077	16,089,893
<b>Net Position</b>		
Net investment in capital assets	(2,005,576)	(1,709,447)
Restricted - expendable for		
Debt service	1,150,707	1,141,232
Unrestricted	1,713,704	2,114,963
Total net position	858,835	1,546,748
Total liabilities and net position	\$ 15,622,912	\$ 17,636,641

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Net patient service revenue	\$ 10,746,400	\$ 10,568,885
Other	<u>113,128</u>	<u>104,013</u>
Total operating revenues	<u>10,859,528</u>	<u>10,672,898</u>
<b>Operating Expenses</b>		
Salaries and wages	4,751,080	4,461,274
Supplies and other	5,227,721	4,974,468
Depreciation and amortization	<u>1,256,952</u>	<u>1,024,224</u>
Total operating expenses	<u>11,235,753</u>	<u>10,459,966</u>
<b>Operating Income (Loss)</b>	<u>(376,225)</u>	<u>212,932</u>
<b>Nonoperating Revenues (Expenses)</b>		
Tax appropriations	351,715	365,155
Contributions and grants	-	19,261
Contributions received from the Wilson Medical Center		
Foundation for operations	-	4,538
Investment income	15,987	23,242
Interest expense	<u>(692,575)</u>	<u>(700,531)</u>
Total nonoperating revenues (expenses)	<u>(324,873)</u>	<u>(288,335)</u>
<b>Deficiency of Revenues Over Expenses Before Capital Contributions and Transfers</b>	(701,098)	(75,403)
Contributions received from the Wilson Medical Center		
Foundation for property and equipment	<u>13,185</u>	<u>31,585</u>
<b>Decrease in Net Position</b>	(687,913)	(43,818)
<b>Net Position, Beginning of Year</b>	<u>1,546,748</u>	<u>1,590,566</u>
<b>Net Position, End of Year</b>	<u><u>\$ 858,835</u></u>	<u><u>\$ 1,546,748</u></u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 8,831,974	\$ 11,182,142
Payments to suppliers	(5,170,328)	(4,940,041)
Payments to employees	(4,687,850)	(4,462,257)
Other receipts, net	<u>107,317</u>	<u>98,017</u>
Net cash provided by (used in) operating activities	<u>(918,887)</u>	<u>1,877,861</u>
<b>Noncapital Financing Activities</b>		
Noncapital appropriations - Wilson County	350,339	365,502
Noncapital contributions and grants	-	19,261
Interest paid on note payable to Foundation	(9,000)	(18,000)
Foundation contributions	<u>-</u>	<u>4,538</u>
Net cash provided by noncapital financing activities	<u>341,339</u>	<u>371,301</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(369,020)	(252,567)
Principal paid on capital lease obligations	(299,492)	(205,551)
Principal paid on long-term debt and notes payable	(288,452)	(277,924)
Interest paid on capital lease obligations	(33,740)	(24,209)
Interest paid on long-term debt	(649,835)	(665,976)
Increase in cash and investments held by trustee for debt service	<u>(13,600)</u>	<u>(4,166)</u>
Net cash used in capital and related financing activities	<u>(1,654,139)</u>	<u>(1,430,393)</u>
<b>Investing Activities</b>		
Proceeds from disposition of investments	250,000	275,000
Interest income	<u>15,987</u>	<u>18,339</u>
Net cash provided by investing activities	<u>265,987</u>	<u>293,339</u>
<b>Increase (Decrease) in Cash</b>	(1,965,700)	1,112,108
<b>Cash, Beginning of Year</b>	<u>2,202,401</u>	<u>1,090,293</u>
<b>Cash, End of Year</b>	<u><u>\$ 236,701</u></u>	<u><u>\$ 2,202,401</u></u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 236,701	\$ 2,202,401
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (376,225)	\$ 212,932
Depreciation and amortization	1,256,952	1,024,224
Provision for uncollectible accounts	1,112,034	840,439
Changes in operating assets and liabilities		
Patient and other receivables	(164,040)	(1,738,178)
Estimated amounts due from/to third-party payers	(2,868,231)	1,505,000
Supplies	1,113	(4,054)
Prepaid expenses	64,816	(24,525)
Accounts payable	(8,536)	63,006
Other accrued liabilities	63,230	(983)
Net cash provided by (used in) operating activities	\$ (918,887)	\$ 1,877,861
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ 625,000	\$ 613,883



**Wilson Medical Center Foundation**  
**A Component Unit of Wilson County Hospital**  
**d/b/a Wilson Medical Center**  
**Statements of Financial Position**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash	\$ 466,261	\$ 406,464
Contributions receivable, net	-	67,909
Note and lease receivable from Hospital	261,073	274,524
Interest receivable	10,454	-
Restricted cash and certificates of deposit	317,997	320,173
Property and equipment, net of accumulated depreciation; 2012 - \$201,943, 2011 - \$161,646	839,901	880,198
Other investments	80,667	79,690
	<hr/>	<hr/>
Total assets	\$ 1,976,353	\$ 2,028,958
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 34,563	\$ 24,262
Accrued expenses	1,367	542
	<hr/>	<hr/>
Total liabilities	35,930	24,804
	<hr/>	<hr/>
<b>Net Assets</b>		
Unrestricted	1,622,426	1,616,072
Temporarily restricted	232,729	302,814
Permanently restricted	85,268	85,268
	<hr/>	<hr/>
Total net assets	1,940,423	2,004,154
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,976,353	\$ 2,028,958
	<hr/>	<hr/>

**Wilson Medical Center Foundation**  
**A Component Unit of Wilson County Hospital**  
**d/b/a Wilson Medical Center**  
**Statements of Activities**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Revenues, Gains and Other Support</b>		
Medical office building rent	\$ 22,115	\$ 24,273
Investment return	18,334	19,539
Contributions	<u>14,241</u>	<u>8,803</u>
Total revenues, gains and other support	<u>54,690</u>	<u>52,615</u>
<b>Expenses</b>		
Medical office building and other expenses	64,939	69,094
Depreciation	40,297	40,297
Unrealized loss on investments	-	18,800
Contributions to Wilson Medical Center for operations	<u>-</u>	<u>4,538</u>
Total expenses	<u>105,236</u>	<u>132,729</u>
<b>Excess of Expenses Over Revenues</b>	(50,546)	(80,114)
Contributions to Wilson Medical Center for property and equipment	<u>(13,185)</u>	<u>(31,585)</u>
<b>Change in Net Assets</b>	(63,731)	(111,699)
<b>Net Assets, Beginning of Year</b>	<u>2,004,154</u>	<u>2,115,853</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 1,940,423</u></u>	<u><u>\$ 2,004,154</u></u>

**Wilson Medical Center Foundation**  
**A Component Unit of Wilson County Hospital**  
**d/b/a Wilson Medical Center**  
**Statements of Changes in Net Assets**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Unrestricted Net Assets</b>		
Excess of expenses over revenues	\$ (50,546)	\$ (80,114)
Contributions to Wilson Medical Center for property and equipment	(13,185)	(31,585)
Net assets released from restriction used for operations	2,176	2,610
Net assets released from restriction used for purchase of property and equipment	<u>67,909</u>	<u>49,282</u>
Increase (decrease) in unrestricted net assets	<u>6,354</u>	<u>(59,807)</u>
<b>Temporarily Restricted Net Assets</b>		
Net assets released from restriction	<u>(70,085)</u>	<u>(51,892)</u>
<b>Change in Net Assets</b>	(63,731)	(111,699)
<b>Net Assets, Beginning of Year</b>	<u>2,004,154</u>	<u>2,115,853</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 1,940,423</u></u>	<u><u>\$ 2,004,154</u></u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson 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***

The financial statements of Wilson County Hospital d/b/a Wilson Medical Center (Hospital), a component unit of Wilson County (County), include the accounts of the Hospital and Get Fit, L.C. (Wellness Center) which is a blended component unit of the Hospital. All significant intercompany accounts have been eliminated.

The Hospital is owned by Wilson County and governed by a Board of Trustees appointed by the Board of County Commissioners. The Hospital, located in Neodesha, Kansas, provides acute, skilled and intermediate care services.

The Wellness Center is a limited liability company (LLC) organized to manage, operate and conduct the operations of a wellness center in Neodesha, Kansas, and to provide wellness and health related education services to the public, as well as the promotion of health and wellness. The Wellness Center is a wholly-owned subsidiary of the Hospital. As a single member LLC, the Wellness Center is disregarded for federal tax purposes.

Wilson Medical Center Foundation (Foundation) was established during 2007 and the application to obtain Internal Revenue Code Section 501(c)(3) status was approved during 2009. The Foundation is a legally separate nonprofit corporation organized and operated for the exclusive benefit and support of the Hospital. The governing body of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the Hospital. Because these resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

***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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), 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 position are available.

**Wilson County Hospital d/b/a Wilson Medical Center**  
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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.

***Cash Equivalents***

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

***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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Investments and Investment Income***

Investments consist of certificates of deposit, carried at amortized cost, and U.S. obligation money market funds carried at fair value. Fair value is determined using quoted market prices.

Investment income consists primarily of interest income.

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

**Wilson County Hospital d/b/a Wilson Medical Center**  
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For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

***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 – 20 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	5 – 15 years

***Deferred Financing Costs***

Deferred financing costs represent 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 interest method.

***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.

**Wilson County Hospital d/b/a Wilson Medical Center**  
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**December 31, 2012 and 2011**

***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 is 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. Unrestricted net position is 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 care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

***Foundation***

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

**Wilson County Hospital d/b/a Wilson Medical Center**  
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***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. 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 will recognize 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 not received or recognized any revenue for the incentive payments in the accompanying financial statements.

***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.

***Subsequent Events***

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

**Note 2: Deposits and Investments**

***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.



**Wilson County Hospital d/b/a Wilson Medical Center**  
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State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2012 and 2011, respectively, \$158,596 and \$2,206,373 of the Hospital's bank balances of \$486,034 and \$2,506,742 were exposed to custodial credit risk as follows:

	<b>2012</b>	<b>2011</b>
Uninsured and collateral held by pledging financial institution	<u>\$ 158,596</u>	<u>\$ 2,206,373</u>

***Investments***

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in a limited extent in corporate bonds and equity securities.

At December 31, 2012 and 2011, in connection with the Wilson County, Kansas Hospital Revenue Bonds, Series 2007 and 2006 (see *Notes 4 and 7*), the Hospital has invested in U.S. obligations money market funds in the amount of \$1,150,707 and \$1,141,232, respectively, available upon demand.

***Summary of Carrying Values***

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2012 and 2011, as follows:

	<b>2012</b>	<b>2011</b>
Carrying value		
Bank deposits	\$ 236,009	\$ 2,451,709
Cash on hand and change funds	692	692
Cash and investments held by trustee for debt service	<u>1,150,707</u>	<u>1,141,232</u>
	<u>\$ 1,387,408</u>	<u>\$ 3,593,633</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
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	<u>2012</u>	<u>2011</u>
Included in the following balance sheet captions		
Cash	\$ 236,701	\$ 2,202,401
Short-term investments	-	250,000
Investments held by trustee for debt service	297,677	287,592
Noncurrent cash and investments		
Investments held by trustee for debt service	853,030	853,640
	<u>\$ 1,387,408</u>	<u>\$ 3,593,633</u>

**Note 3: Patient Accounts Receivable, Net/Net Patient Service Revenue**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of revenues, expenses and changes in net position as a component of net patient service revenue.

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

*Medicare.* The Hospital is recognized as a Critical Access Hospital (CAH). 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 allowable cost subject to certain limitations. The Hospital is reimbursed for certain 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.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**

**Notes to Financial Statements**  
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Approximately 78% and 74% 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.

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:

	<b>2012</b>	<b>2011</b>
Medicare	\$ 1,351,542	\$ 2,322,657
Medicaid	163,936	136,909
Blue Cross	177,276	341,411
Other third-party payers	461,241	367,603
Self-pay	976,084	681,475
	<u>3,130,079</u>	<u>3,850,055</u>
Allowance for uncollectible accounts	(633,987)	(435,830)
Allowance for contractual adjustments	<u>(1,130,896)</u>	<u>(1,095,224)</u>
	<u><u>\$ 1,365,196</u></u>	<u><u>\$ 2,319,001</u></u>

The mix of accounts receivable, net of allowance for uncollectible accounts and contractual allowances at December 31, 2012 and 2011, were as follows:

	<b>2012</b>	<b>2011</b>
Medicare	47%	65%
Medicaid	1%	2%
Blue Cross	7%	9%
Other third-party payers	26%	13%
Self-pay	19%	11%
	<u>100%</u>	<u>100%</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
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Net patient service revenue for the years ended December 31, 2012 and 2011, were as follows:

	<b>2012</b>	<b>2011</b>
Gross patient service revenue	\$ 17,334,862	\$ 18,895,469
Less:		
Contractual adjustments	(5,449,188)	(7,428,776)
Provision for uncollectible accounts	(1,112,034)	(840,439)
Charity care	(27,240)	(57,369)
Net patient service revenue	<u>\$ 10,746,400</u>	<u>\$ 10,568,885</u>

**Note 4: Cash and Investments Held By Trustee For Debt Service**

Cash and investments held by trustee for debt service consist of U.S. obligations money market funds relative to the Wilson County, Kansas, Hospital Revenue Bonds, Series 2007 and 2006 and are summarized as follows as of December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Debt service reserve fund	\$ 853,030	\$ 853,640
Principal and interest funds	<u>297,677</u>	<u>287,592</u>
	1,150,707	1,141,232
Less current portion	<u>(297,677)</u>	<u>(287,592)</u>
	<u>\$ 853,030</u>	<u>\$ 853,640</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Notes to Financial Statements**  
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**Note 5: Capital Assets**

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

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Land	\$ 143,406	\$ -	\$ -	\$ 143,406
Land improvements	817,986	-	-	817,986
Buildings	10,917,781	-	-	10,917,781
Fixed equipment	520,398	-	-	520,398
Moveable equipment	2,355,066	1,007,205	-	3,362,271
	<u>14,754,637</u>	<u>1,007,205</u>	<u>-</u>	<u>15,761,842</u>
Less accumulated depreciation				
Land improvements	285,708	84,426	-	370,134
Buildings	2,324,716	606,447	-	2,931,163
Fixed equipment	220,945	55,739	-	276,684
Moveable equipment	1,082,678	503,842	-	1,586,520
	<u>3,914,047</u>	<u>1,250,454</u>	<u>-</u>	<u>5,164,501</u>
Capital Assets, Net	<u>\$ 10,840,590</u>	<u>\$ (243,249)</u>	<u>\$ -</u>	<u>\$ 10,597,341</u>

  

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Land	\$ 143,406	\$ -	\$ -	\$ 143,406
Land improvements	817,986	-	-	817,986
Buildings	10,917,781	-	-	10,917,781
Fixed equipment	520,398	-	-	520,398
Moveable equipment	1,457,032	898,034	-	2,355,066
	<u>13,856,603</u>	<u>898,034</u>	<u>-</u>	<u>14,754,637</u>
Less accumulated depreciation				
Land improvements	201,282	84,426	-	285,708
Buildings	1,718,269	606,447	-	2,324,716
Fixed equipment	164,618	56,327	-	220,945
Moveable equipment	811,966	270,712	-	1,082,678
	<u>2,896,135</u>	<u>1,017,912</u>	<u>-</u>	<u>3,914,047</u>
Capital Assets, Net	<u>\$ 10,960,468</u>	<u>\$ (119,878)</u>	<u>\$ -</u>	<u>\$ 10,840,590</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
**A Component Unit of Wilson County, Kansas**  
**Notes to Financial Statements**  
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**Note 6: Notes Payable to Foundation**

Notes payable to Foundation activity for the years ended December 31, 2012 and 2011, was:

<b>2012</b>						
<b>Beginning Balance</b>	<b>Deductions</b>	<b>Additions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Long-term Portion</b>	
4% note payable to Wilson Medical Center Foundation, collateralized by x-ray equipment	\$ 49,524	\$ (13,451)	\$ -	\$ 36,073	\$ 13,999	\$ 22,074
4% note payable to Wilson Medical Center Foundation for operations	225,000	-	-	225,000	225,000	-
	<u>\$ 274,524</u>	<u>\$ (13,451)</u>	<u>\$ -</u>	<u>\$ 261,073</u>	<u>\$ 238,999</u>	<u>\$ 22,074</u>
<b>2011</b>						
<b>Beginning Balance</b>	<b>Deductions</b>	<b>Additions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Long-term Portion</b>	
4% note payable to Wilson Medical Center Foundation, collateralized by x-ray equipment	\$ 62,448	\$ (12,924)	\$ -	\$ 49,524	\$ 13,451	\$ 36,073
4% note payable to Wilson Medical Center Foundation for operations	225,000	-	-	225,000	225,000	-
	<u>\$ 287,448</u>	<u>\$ (12,924)</u>	<u>\$ -</u>	<u>\$ 274,524</u>	<u>\$ 238,451</u>	<u>\$ 36,073</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
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**Notes to Financial Statements**  
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The debt service requirements for the notes payable as of December 31, 2012, are as follows:

	<b>Principal</b>	<b>Interest</b>
Year Ending December 31,		
2013	\$ 238,999	\$ 10,188
2014	14,569	618
2015	7,505	88
	<u>\$ 261,073</u>	<u>\$ 10,894</u>

**Note 7: Long-term Obligations**

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

	<b>2012</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>	<b>Long-term Portion</b>
4.65% - 5.50% Hospital Revenue Bonds, Series 2007, issued by Wilson County, Kansas, with varying maturities from September 2013 through September 2017	\$ 1,345,000	\$ -	\$ (225,000)	\$ 1,120,000	\$ 240,000	\$ 880,000
4.95% - 6.20% Hospital Revenue Bonds, Series 2006, issued by Wilson County, Kansas, with varying maturities from September 2017 through September 2036	9,865,000	-	-	9,865,000	-	9,865,000
Special assessments payable	730,000	-	(50,000)	680,000	50,000	630,000
Original issue premium on above bonds	121,897	-	(13,442)	108,455	11,895	96,560
	12,061,897	-	(288,442)	11,773,455	301,895	11,471,560
Capital lease obligations	746,216	625,000	(299,492)	1,071,724	276,741	794,983
	<u>\$ 12,808,113</u>	<u>\$ 625,000</u>	<u>\$ (587,934)</u>	<u>\$ 12,845,179</u>	<u>\$ 578,636</u>	<u>\$ 12,266,543</u>

**Wilson County Hospital d/b/a Wilson Medical Center**  
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	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-term Portion
4.65% - 5.50% Hospital Revenue Bonds, Series 2007, issued by Wilson County, Kansas, with varying maturities from September 2012 through September 2017	\$ 1,560,000	\$ -	\$ (215,000)	\$ 1,345,000	\$ 225,000	\$ 1,120,000
4.95% - 6.20% Hospital Revenue Bonds, Series 2006, issued by Wilson County, Kansas, with varying maturities from September 2017 through September 2036	9,865,000	-	-	9,865,000	-	9,865,000
Special assessments payable	780,000	-	(50,000)	730,000	50,000	680,000
Original issue premium on above bonds	136,787	-	(14,890)	121,897	13,441	108,456
	12,341,787	-	(279,890)	12,061,897	288,441	11,773,456
Capital lease obligations	337,884	613,883	(205,551)	746,216	246,317	499,899
	<u>\$ 12,679,671</u>	<u>\$ 613,883</u>	<u>\$ (485,441)</u>	<u>\$ 12,808,113</u>	<u>\$ 534,758</u>	<u>\$ 12,273,355</u>

In November 2006, Wilson County, Kansas, issued \$9,865,000 Hospital Revenue Bonds, Series 2006 (Bonds) at a premium of \$133,202. In January 2007, Wilson County, Kansas, issued \$2,135,000 Hospital Revenue Bonds, Series 2007 (Bonds) at a premium of \$76,249. The Bonds are payable solely from the gross revenues of the Hospital and funds held by the Bond Trustee. The Bonds do not constitute a general obligation of Wilson County.

The Bond indentures include various covenants to be met including certain measures of financial performance. For 2012, the Hospital was not in compliance with the debt service coverage covenant that requires the Hospital to have a historical debt service coverage ratio not less than 1.25. In addition, the Hospital was not in compliance with the days cash on hand covenant that requires the Hospital to have at least 70 days of cash on hand as of December 31, 2012.

When the debt service coverage ratio covenant is not met, the bond indenture requires that the Board of Trustees and Hospital retain a consultant to make recommendations with respect to the rates, fees and charges of the Hospital and the Hospital's methods of operation and other factors affecting its financial condition in order to increase the historical debt service coverage ratio for subsequent fiscal years to be at least 1.25 and to notify the County and Bond Trustee of the requirement to retain such consultant.



# Wilson County Hospital d/b/a Wilson Medical Center

## A Component Unit of Wilson County, Kansas

### Notes to Financial Statements

#### December 31, 2012 and 2011

When the days cash on hand covenant is not met, the bond indenture requires that the Board of Trustees shall deliver not later than 30 days after receipt of the certificate disclosing such deficiency as provided for in the bond indenture, a management report setting forth reasonable reasons for such deficiency and adopting a specific plan with respect to rates, fees charges and the Board of Trustees' methods of operation and other factors affecting its financial condition in order to increase the cash levels to at least the required number of days cash on hand for future reporting dates. With respect to the latter covenant, the Hospital received \$772,000 in January 2013 related to retroactive settlements for 2012 services provided to Medicare beneficiaries. In addition, the 2012 financial statements include an additional estimated receivable of approximately \$813,000 related to the as-filed Medicare and Medicaid 2012 cost reports. Had these reimbursements been received as services were provided, the cash on hand requirements may have been met as of December 31, 2012.

The Series 2007 Bonds scheduled to mature September 1, 2015, and thereafter may be redeemed on or after September 1, 2014, in whole or part at a redemption price of 100% of the principal amount then outstanding plus accrued interest.

In connection with the new hospital construction, utility construction costs were incurred on behalf of the Hospital and financed by the City of Neodesha (City). The City will be reimbursed for the utility construction costs plus interest through special tax assessments levied on the real property on which the new hospital is located. The special assessments were levied in 2009 and are to be repaid over a 15-year period.

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

	<b>Bonds</b>		<b>Special Assessment Payable</b>		<b>Capital Lease Obligations</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Year Ending December 31,						
2013	\$ 240,000	\$ 611,463	\$ 50,000	\$ 27,490	\$ 276,741	\$ 32,320
2014	250,000	598,263	50,000	25,740	280,262	22,665
2015	265,000	584,513	55,000	23,990	232,765	13,646
2016	280,000	572,191	55,000	22,065	173,345	6,718
2017	290,000	559,030	60,000	20,085	108,611	1,798
2018-2022	1,650,000	2,564,190	335,000	61,553	-	-
2023-2027	2,180,000	2,025,600	75,000	3,263	-	-
2028-2032	2,890,000	1,320,025	-	-	-	-
2033-2036	2,940,000	422,800	-	-	-	-
	<u>\$10,985,000</u>	<u>\$ 9,258,075</u>	<u>\$ 680,000</u>	<u>\$ 184,186</u>	<u>\$ 1,071,724</u>	<u>\$ 77,147</u>

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The following is an analysis of the financial presentation of the assets held under capital lease at December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Moveable equipment	\$ 1,707,837	\$ 1,186,523
Less accumulated depreciation	<u>(667,640)</u>	<u>(413,330)</u>
	<u><u>\$ 1,040,197</u></u>	<u><u>\$ 773,193</u></u>

As of December 31, 2012, approximately \$572,000 of the capital lease obligations referred to above relate to data processing equipment. As additional security and collateral, the Hospital has pledged any proceeds to be received under the Electronic Health Records Incentive Program (see *Note 1*) to be applied as additional payments to that lease purchase agreement.

**Note 8: 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, Suite 100, Topeka, Kansas 66603, 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; the rate was 7.34%, 6.74% and 6.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. The Hospital's contributions to the plan for the years ended December 31, 2012, 2011 and 2010, were \$336,859, \$303,609 and \$283,371, respectively, equal to the statutory required contributions for each year. Contributions actually made by plan members were \$195,033 and \$180,018 for the years ended December 31, 2012 and 2011, respectively. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

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**Note 9: Medical Malpractice Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 10: 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 to the Hospital cannot be quantified at this point.

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

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**Note 11: Wilson Medical Center Foundation**

***Financial Statements***

The financial statements of the Foundation are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

***Contributions Receivable, Net***

Contributions receivable, net consisted of the following at December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Due within one year	\$ 39,412	\$ 46,012
Due in one to five years	46,207	47,335
Due in more than five years	1,723	2,553
	<u>87,342</u>	<u>95,900</u>
Allowance for uncollectible contributions	(87,342)	(20,666)
Unamortized discount	<u>-</u>	<u>(7,325)</u>
	<u><u>\$ -</u></u>	<u><u>\$ 67,909</u></u>

The discount rate for 2011 was 6%.

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**Net Assets**

The following classifications reflect the nature of restrictions on temporarily and permanently restricted net assets at December 31, 2012 and 2011:

		<b>2012</b>	
		<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Scholarships		\$ 232,729	\$ -
Endowment		-	85,268
		<u>\$ 232,729</u>	<u>\$ 85,268</u>
		<b>2011</b>	
		<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Scholarships		\$ 234,905	\$ -
Capital assets		67,909	-
Endowment		-	85,268
		<u>\$ 302,814</u>	<u>\$ 85,268</u>