

Geary Community Hospital
A Component Unit of Geary County, Kansas
Independent Auditor's Report and Financial Statements
April 30, 2013 and 2012



Geary Community Hospital
A Component Unit of Geary County, Kansas
April 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Geary Community Hospital
Junction City, Kansas

We have audited the accompanying financial statements of Geary Community Hospital and its discretely presented component unit, collectively a component unit of Geary County, Kansas, which comprise the balance sheets as of April 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Geary Community Healthcare Foundation (Foundation), a discretely presented component unit of the Hospital, which statements reflect total assets of \$4,935,457 and \$4,633,732 as of December 31, 2012 and 2011, respectively, and total revenues of \$787,889 and \$350,348 for the years then ended. Those statements were audited by other accountants whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other accountants. 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 from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Geary Community Hospital and of its discretely presented component unit as of April 30, 2013 and 2012, and the respective changes in its financial position and, where applicable, cash flows thereof 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Net Patient Service Revenue schedule, Contractual Allowances, Charity Care and Other Operating Revenues schedule and Operating Expenses schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Geary Community Hospital
A Component Unit of Geary County, Kansas
Management's Discussion and Analysis
Years Ended April 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Geary Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended April 30, 2013, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relates solely to the Hospital and does not include the Hospital's component unit, Geary Community Healthcare Foundation (Foundation).

Financial Highlights

- Cash and short-term certificates of deposit increased \$495,773 or 15% in 2013 and \$1,982,205 or 141% in 2012.
- The Hospital's net position decreased \$555,643 or 1% in 2013 and \$887,389 or 2% in 2012.
- The Hospital reported an operating loss of \$966,491 and \$1,197,824 in 2013 and 2012, respectively. The operating loss in 2013 decreased by \$231,333 or 19% compared to the operating loss reported in 2012.

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. Geary Community Healthcare Foundation, a nonprofit organization established to raise funds for the support of health care services and programs of Geary Community Hospital and the Geary County, Kansas area, is included in the Hospital's financial statements as a component unit using the discrete presentation method.

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 changes in the Hospital's net position. 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 is an indicator of whether its financial health is improving or deteriorating. Other non-financial 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 questions as to 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

Net position is the difference between assets and liabilities reported in the Balance Sheet. As shown in Table 1, the Hospital's net position decreased by \$555,643 or 1% in 2013. In 2012, net position decreased by \$887,389 or 2%.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Cash	\$ 3,879,396	\$ 3,383,623	\$ 1,401,418
Patient accounts receivable, net	5,798,238	5,620,873	5,764,382
Other current assets	3,141,951	3,545,448	3,439,848
Capital assets, net	45,256,372	47,598,753	50,060,126
Other noncurrent assets	<u>1,780,640</u>	<u>1,909,117</u>	<u>1,927,316</u>
Total assets	<u>\$ 59,856,597</u>	<u>\$ 62,057,814</u>	<u>\$ 62,593,090</u>
Liabilities			
Long-term debt, excluding current portion	\$ 5,388,024	\$ 6,391,095	\$ 6,288,949
Current liabilities	<u>3,749,239</u>	<u>4,391,742</u>	<u>4,141,775</u>
Total liabilities	<u>9,137,263</u>	<u>10,782,837</u>	<u>10,430,724</u>
Net Position			
Net investment in capital assets	39,703,236	41,071,648	43,497,114
Restricted expendable	932,362	898,345	910,342
Unrestricted	<u>10,083,736</u>	<u>9,304,984</u>	<u>7,754,910</u>
Total net position	<u>50,719,334</u>	<u>51,274,977</u>	<u>52,162,366</u>
Total liabilities and net position	<u>\$ 59,856,597</u>	<u>\$ 62,057,814</u>	<u>\$ 62,593,090</u>

Net patient accounts receivable remained flat at April 30, 2013, as compared to April 30, 2012. The nature of accounts receivables at April 30, 2013, is similar to 2012. Cash increased during the fiscal year ended April 30, 2012, mostly due to improved reimbursement from the Medicare Rural Community Hospital demonstration project which allows for increased reimbursement for services provided to Medicare patients.

The Hospital received \$1,079,028 in Medicare stimulus funding under the *American Recovery and Reinvestment Act of 2009* for successfully achieving Stage 1 meaningful use of technology criteria. The stimulus funds were used to pay off \$760,000 in long-term debt to the Geary Community Healthcare Foundation. Current liabilities decreased from 2012 to 2013 mostly due to 1) the timing of when current accounts payables were paid in April 2013, and 2) a reduction in the amount payable for leave time to staff. These short-term payables routinely fluctuate.

Operating Results and Changes in the Hospital's Net Position

Table 2 shows the different components that make up the \$555,643 decrease in net position for 2013. Also shown are the components that make up the \$887,389 decrease in net position for 2012.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 41,017,517	\$ 41,314,647	\$ 39,821,712
Electronic Health Records Incentive Revenue	1,079,028	374,193	-
Other operating revenues	782,150	766,552	750,457
Total operating revenues	<u>42,878,695</u>	<u>42,455,392</u>	<u>40,572,169</u>
Operating Expenses			
Salaries and employee benefits	24,612,277	24,292,890	24,224,555
Purchased services and professional fees	4,732,866	4,872,758	5,231,717
Depreciation and amortization	3,117,928	3,153,581	3,132,047
Other operating expenses	11,382,115	11,333,987	11,595,569
Total operating expenses	<u>43,845,186</u>	<u>43,653,216</u>	<u>44,183,888</u>
Operating Loss	<u>(966,491)</u>	<u>(1,197,824)</u>	<u>(3,611,719)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	254,927	183,247	144,472
Investment income	235,531	215,708	196,135
Interest expense	(272,875)	(302,731)	(291,469)
Noncapital grants and gifts	18,914	35,759	16,791
Total nonoperating revenues	<u>236,497</u>	<u>131,983</u>	<u>65,929</u>
Capital Grants and Gifts	<u>174,351</u>	<u>178,452</u>	<u>102,915</u>
Change in Net Position	<u>\$ (555,643)</u>	<u>\$ (887,389)</u>	<u>\$ (3,442,875)</u>

Operating Loss

The change in the Hospital's net position is significantly affected by its operating income or loss. Generally, this is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital has reported an operating loss of \$966,491 and \$1,197,824 in 2013 and 2012, respectively. The operating loss for 2013 is a decrease of \$231,333 or 19% from the operating loss for 2012.

The primary components of the decreased operating loss in 2013 are:

- An increase in Electronic Health Records Incentive Revenue of \$704,835.

During the fiscal year 2013, the Hospital qualified for Medicare stimulus funding under the *American Recovery and Reinvestment Act of 2009*. Payments under the program are made to hospitals meeting meaningful use criteria and other specific requirements.

- A decrease in net patient service revenue of \$297,130 or 0.7%.

Volumes were down in the inpatient and surgery departments in 2013. The reduction in inpatient activity appears to be consistent with national trends. In general, more patient care is being handled in the outpatient setting. The Hospital's outpatient revenue increased in 2013, but it was not enough to entirely offset the reduction in inpatient revenue. Surgery volumes were mostly affected by a reduction in the number of general surgeons practicing at the Hospital. One full time surgeon left the community during fiscal year 2012 and was not replaced until August 2013. Another surgeon transitioned from full-time to part-time in fiscal year 2013.

- An increase in salary and employee benefits of \$319,387 or 1.3%.

This expense increased mostly due to the replacement of temporary locum tenens physicians in the Hospital-owned clinics with permanent employed physicians. Locum tenens expenses are recorded to the Purchased Services and Professional Fees line of the income statement, while employed physician expenses are included in the Salaries and Employee Benefits lines. In fiscal year 2012, two locum tenens physicians were replaced with two employed physicians, and 2013 was the first full year for both of these new physicians to be on the payroll.

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

- An increase in net patient service revenues of \$1,492,935 or 3.7%.

In May 2011, the Hospital began participation in a Medicare Rural Community Hospital demonstration project which allows for increased reimbursement for services provided to Medicare inpatients. This program enhanced reimbursements by approximately \$2,200,000.

- An increase in Electronic Health Records Incentive Revenue of \$374,193.

During the fiscal year 2012, the Hospital qualified for Medicaid stimulus funding under the *American Recovery and Reinvestment Act of 2009*. Payments under the program are made to hospitals meeting meaningful use criteria and other specific requirements.

- A decrease in purchased services and professional fees of \$358,959 or 6.9%.

This expense decreased mostly due to a reduction in the use of temporary locum tenens physicians in the Hospital-owned clinics. Due to the temporary nature of their job, locum tenens physicians are paid at a higher rate than employed physicians. In fiscal year 2012, two locum tenens physicians were replaced with two employed physicians.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of gifts, county tax proceeds, investment income and interest expense.

Capital Grants and Gifts

The Hospital received gifts of \$174,351 from various individuals to purchase capital assets in 2013, compared to \$178,452 in 2012.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. In addition, cash has been expended for construction associated with the Hospital's expansion plan. Details of this activity are described in the Capital Asset and Debt Administration – Capital Assets section of this document.

Capital Asset and Debt Administration

Capital Assets

At April 30, 2013 and 2012, the Hospital had \$45,256,372 and \$47,598,753, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In fiscal years 2013 and 2012, the Hospital acquired new capital assets with a total cost of \$775,815 and \$765,175, respectively. Net capital assets amounts were reduced by normal depreciation of assets in the amount of \$3,117,928 in 2013 and \$3,153,581 in 2012.

Debt

At April 30, 2013 and 2012, the Hospital had \$5,700,324 and \$6,682,395, respectively, in revenue bonds and capital lease obligations outstanding, as detailed in *Note 9* to the financial statements. Stimulus funds received from the *American Recovery and Reinvestment Act of 2009* for achieving meaningful use of technology criteria were used to pay off \$760,000 in long-term debt to the Foundation. 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 administration by telephoning 785.238.4131.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Balance Sheets
April 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash	\$ 3,879,396	\$ 3,383,623
Restricted cash - current	259,030	258,136
Patient accounts receivable, net of allowance; 2013 - \$5,513,700, 2012 - \$5,502,700	5,798,238	5,620,873
Estimated amounts due from third-party payers	1,006,000	1,574,193
Supplies	1,147,182	1,075,262
Prepaid expenses and other	729,739	637,857
	<hr/>	<hr/>
Total current assets	12,819,585	12,549,944
	<hr/>	<hr/>
Noncurrent Cash and Short-term Certificates of Deposit		
Held under bond indenture for debt service - cash	562,318	560,131
Held under bond indenture for debt service - short-term certificates of deposit	823,952	822,400
Held under bond indenture for capital acquisitions - cash	180,000	180,000
Restricted by donors for specific operating activities - cash	41,725	37,983
Restricted by donors for specific operating activities - short-term certificate of deposit	61,796	61,678
	<hr/>	<hr/>
	1,669,791	1,662,192
Less amount required to meet current obligations	259,030	258,136
	<hr/>	<hr/>
Total noncurrent cash and short-term certificates of deposit	1,410,761	1,404,056
	<hr/>	<hr/>
Capital Assets, Net	45,256,372	47,598,753
	<hr/>	<hr/>
Other Assets		
Deferred financing costs	147,189	155,291
Advances to physicians, net of estimated uncollectibles; 2013 - \$297,977, 2012 - \$230,449	222,690	349,770
	<hr/>	<hr/>
Total other assets	369,879	505,061
	<hr/>	<hr/>
Total assets	<u>\$ 59,856,597</u>	<u>\$ 62,057,814</u>

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of long-term debt	\$ 312,300	\$ 291,300
Accounts payable	1,522,954	1,642,304
Accrued payroll and related expenses	1,681,872	1,979,452
Accrued interest	58,789	85,212
Estimated amounts due to third-party payers	-	160,514
Accrued health insurance benefits	161,000	221,000
Deferred revenue	12,324	11,960
	<hr/>	<hr/>
Total current liabilities	3,749,239	4,391,742
Long-term Debt	<u>5,388,024</u>	<u>6,391,095</u>
Total liabilities	<u>9,137,263</u>	<u>10,782,837</u>
Net Position		
Net investment in capital assets	39,703,236	41,071,648
Restricted - expendable for		
Debt service	649,081	618,919
Capital acquisitions	180,000	180,000
Specific operating activities	103,281	99,426
Unrestricted	10,083,736	9,304,984
	<hr/>	<hr/>
Total net position	50,719,334	51,274,977
Total liabilities and net position	<u>\$ 59,856,597</u>	<u>\$ 62,057,814</u>

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Cash	\$ 1,186,048	\$ 615,219
Investments	3,749,180	3,143,328
Lease receivable – Geary Community Hospital	-	873,125
Equipment – net	229	2,060
Total assets	\$ 4,935,457	\$ 4,633,732
 Liabilities and Net Assets		
Liabilities – Annuities Payable	\$ 26,120	\$ 43,372
Net Assets – Unrestricted	4,909,337	4,590,360
Total liabilities and net assets	\$ 4,935,457	\$ 4,633,732

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended April 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 - \$5,670,784, 2012 - \$5,704,968	\$ 41,017,517	\$ 41,314,647
Electronic Health Records Incentive Revenue	1,079,028	374,193
Other	782,150	766,552
Total operating revenues	42,878,695	42,455,392
Operating Expenses		
Salaries	19,812,879	19,640,240
Employee benefits	4,799,398	4,652,650
Purchased services and professional fees	4,732,866	4,872,758
Drugs	929,569	976,364
Food	543,356	498,545
Utilities	1,098,098	1,079,626
Insurance	462,849	490,371
Supplies and other	8,348,243	8,289,081
Depreciation and amortization	3,117,928	3,153,581
Total operating expenses	43,845,186	43,653,216
Operating Loss	(966,491)	(1,197,824)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	254,927	183,247
Interest income	235,531	215,708
Interest expense	(272,875)	(302,731)
Noncapital grants and gifts	18,914	35,759
Total nonoperating revenues	236,497	131,983
Deficiency of Revenues Over Expenses Before Appropriations and Capital Grants and Gifts	(729,994)	(1,065,841)
Capital Grants and Gifts	174,351	178,452
Decrease in Net Position	(555,643)	(887,389)
Net Position, Beginning of Year	51,274,977	52,162,366
Net Position, End of Year	\$ 50,719,334	\$ 51,274,977

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Activities
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues, Gains and Other Support		
Donations	\$ 95,535	\$ 222,503
Memorials	23,135	38,311
Special events	144,234	141,658
Donated staff and facilities	41,161	45,333
Net investment income (losses)	483,824	(97,457)
	787,889	350,348
Expenses and Losses		
Program expenses	275,532	189,943
Supporting services	92,688	94,650
Fund raising	100,692	102,380
	468,912	386,973
Increase (Decrease) in Net Assets	318,977	(36,625)
Unrestricted Net Assets, Beginning of Year	4,590,360	4,626,985
Unrestricted Net Assets, End of Year	\$ 4,909,337	\$ 4,590,360

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows
Years Ended April 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 41,248,195	\$ 41,507,014
Payments to suppliers and contractors	(16,483,982)	(15,943,002)
Payments to or on behalf of employees	(24,943,434)	(24,267,416)
Other receipts, net	1,861,446	1,213,712
Net cash provided by operating activities	1,682,225	2,510,308
Noncapital Financing Activities		
Intergovernmental revenue	254,927	183,247
Noncapital grants and gifts	18,914	35,759
Net cash provided by noncapital financing activities	273,841	219,006
Capital and Related Financing Activities		
Capital grants and gifts	174,351	178,452
Principal paid on revenue bonds payable	(255,000)	(245,000)
Principal paid on capital leases	(806,962)	(316,354)
Interest paid on long-term debt	(299,298)	(281,404)
Purchase of capital assets	(695,924)	(251,675)
Net cash used in capital and related financing activities	(1,882,833)	(915,981)
Investing Activities		
Interest on investments	235,531	215,708
Advances to physicians	194,608	(37,891)
Net change in certificates of deposit	(118)	(789)
Net change in construction escrow and debt-related accounts	(1,552)	-
Net cash provided by investing activities	428,469	177,028
Increase in Cash	501,702	1,990,361
Cash, Beginning of Year	4,161,737	2,171,376
Cash, End of Year	\$ 4,663,439	\$ 4,161,737

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows (Continued)
Years Ended April 30, 2013 and 2012

	2013	2012
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 4,138,426	\$ 3,641,759
Cash in noncurrent cash	525,013	519,978
Total cash	\$ 4,663,439	\$ 4,161,737
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (966,491)	\$ (1,197,824)
Depreciation	3,117,928	3,153,581
Amortization	8,102	11,947
Loss on disposal of assets	268	72,967
Change in allowance for advances to physicians	(67,528)	4,968
Write-off of advances to physicians	-	44,693
Changes in		
Patient accounts receivable, net	(177,365)	143,509
Estimated amounts due from and to third-party payers	407,679	50,687
Accounts payable and accrued expenses	(476,930)	219,955
Deferred revenue	364	(1,829)
Other assets and liabilities	(163,802)	7,654
Net cash provided by operating activities	\$ 1,682,225	\$ 2,510,308
Supplemental Cash Flows Information		
Capital lease obligation incurred	\$ 79,891	\$ 513,500

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 318,977	\$ (36,625)
Items not requiring (providing) cash		
Decrease in annuities payable	(17,252)	(17,950)
Increase (decrease) in lease receivable	873,125	(713,125)
Depreciation	1,831	2,397
Net realized and unrealized (gain) loss on investments	(361,344)	237,629
Net cash provided by (used in) operating activities	815,337	(527,674)
Investing Activities		
Proceeds from sale of investments	859,725	1,877,271
Purchase of investments	(1,104,233)	(1,297,076)
Net cash provided by (used in) investing activities	(244,508)	580,195
Increase in Cash	570,829	52,521
Cash, Beginning of Year	615,219	562,698
Cash, End of Year	\$ 1,186,048	\$ 615,219

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2013 and 2012

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

Nature of Operations and Reporting Entity

Geary Community Hospital (Hospital) is an acute care hospital located in Junction City, Kansas. The Hospital is a component unit of Geary County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Geary County area. It also operates a home health agency, hospice and home medical equipment supplier in the same geographic area.

Geary Community Healthcare Foundation (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the Hospital in support of its programs. The fifteen-member board of the Foundation is self-perpetuating and consists of the CEO of the Hospital, three Hospital board members and eleven community members. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Hospital by the donors or are provided to the Hospital for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Hospital and for the benefit of patients served by the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation's financial statements are presented on a December 31 year-end basis.

During the years ended April 30, 2013 and 2012, the Foundation distributed \$168,996 and \$166,256, respectively, to the Hospital for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at 1110 St. Mary's Road, Junction City, Kansas 66441.

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 and county appropriations are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as intergovernmental revenue from 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.

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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).

The Foundation is a private nonprofit organization that reports under the FASB Accounting Standards Codification. 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 financial information in the Hospital's financial reporting entity for these differences.

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.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and are being amortized over the term of the bonds using the interest method of amortization.

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; and natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than health insurance and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Health insurance coverage is provided through a contract managed by an insurance company. Management believes adequate reserves are in place to cover claims incurred but not reported.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported.

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Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

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 and building improvements	15 – 50 years
Fixed equipment	10 – 18 years
Major moveable equipment	3 – 20 years

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.

Deferred Revenue

Deferred revenue consists of grant monies received for specific purposes. Revenue is recognized on deferred grant revenue when the specific purpose of the grant is met.

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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. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

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In 2013 and 2012, the Hospital completed the requirements under the Medicare and Medicaid programs, respectively, and has recorded approximately \$1,079,000 and \$374,000 as revenue in the years ended April 30, 2013 and 2012, respectively.

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. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care and skilled swing-bed services are paid at cost, subject to certain limitations, under a demonstration project with Medicare. Additional reimbursements under this program were approximately \$2,494,000 in 2013 and \$2,200,000 in 2012. Substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. The outpatient payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation services, inpatient gero-psychiatric services, medical education costs and home health agency services are paid at prospectively determined per diem rates that are based on the patients' acuity. Rural Health Clinic services are paid based on a cost reimbursement methodology. 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 most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Rural Health Clinic services are paid on a cost reimbursement methodology. Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$847,565 in 2013 and \$422,903 in 2012.

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Approximately 42% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for both the years ended April 30, 2013 and 2012. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible recorded estimates will change materially in the near term.

The Hospital has qualified for additional reimbursements from the Tricare program under its hold harmless provisions regarding certain outpatient services provided on and after January 1, 2010. Regulations have been issued regarding this reimbursement, however, due to the uncertainty surrounding the computations and significant delays in implementation of these payment provisions, no amounts have been recorded in the financial statements.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

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

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

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Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At April 30, 2013 and 2012, respectively, \$0 and \$68,895 of the Hospital's bank balances of \$5,614,132 and \$5,137,525 were exposed to custodial credit risk as follows:

	2013	2012
Uninsured and uncollateralized	\$ -	\$ 68,895

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 5,549,187	\$ 5,045,815
Included in the following balance sheet captions		
Cash	\$ 3,879,396	\$ 3,383,623
Restricted cash - current	259,030	258,136
Noncurrent cash and certificates of deposit	1,410,761	1,404,056
	\$ 5,549,187	\$ 5,045,815

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Investment Income

Investment income for the years ended April 30, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 235,531	\$ 215,708

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at April 30, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 1,057,019	\$ 914,961
Medicaid	813,884	172,837
Blue Cross	594,451	616,552
Other third-party payers	1,934,426	2,052,034
Patients	<u>6,912,158</u>	<u>7,367,189</u>
	11,311,938	11,123,573
Less allowance for uncollectible accounts	<u>5,513,700</u>	<u>5,502,700</u>
	<u>\$ 5,798,238</u>	<u>\$ 5,620,873</u>

Note 5: Advances to Physicians

The Hospital has entered into agreements with certain physicians to assist them in starting their practices. Advances made under these agreements are to be repaid when the practice income exceeds specified amounts within a defined time period.

At April 30, 2013 and 2012, there were advances to physicians outstanding in the amounts of \$520,667 and \$580,219, respectively.

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Note 6: Capital Assets

Capital assets activity for the years ended April 30, 2013 and 2012, were:

	2013			Ending Balance
	Beginning Balance	Additions	Deletions	
Land and land improvements	\$ 1,247,767	\$ -	\$ -	\$ 1,247,767
Buildings and building improvements	51,653,028	7,287	-	51,660,315
Fixed equipment	4,563,283	54,882	-	4,618,165
Major moveable equipment	18,110,368	713,646	(76,758)	18,747,256
	<u>75,574,446</u>	<u>775,815</u>	<u>(76,758)</u>	<u>76,273,503</u>
Less accumulated depreciation				
Land improvements	998,344	8,567	-	1,006,911
Buildings and building improvements	11,263,756	1,447,299	-	12,711,055
Fixed equipment	3,867,086	208,513	-	4,075,599
Major moveable equipment	11,846,507	1,453,549	(76,490)	13,223,566
	<u>27,975,693</u>	<u>3,117,928</u>	<u>(76,490)</u>	<u>31,017,131</u>
Capital Assets, Net	<u>\$ 47,598,753</u>	<u>\$ (2,342,113)</u>	<u>\$ (268)</u>	<u>\$ 45,256,372</u>

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	2012			
	Beginning Balance	Additions	Deletions	
Land and land improvements	\$ 1,247,767	\$ -	\$ -	\$ 1,247,767
Buildings and building improvements	51,653,028	-	-	51,653,028
Fixed equipment	4,628,999	5,245	(70,961)	4,563,283
Major moveable equipment	17,552,242	759,930	(201,804)	18,110,368
	<u>75,082,036</u>	<u>765,175</u>	<u>(272,765)</u>	<u>75,574,446</u>
Less accumulated depreciation				
Land improvements	972,670	25,674	-	998,344
Buildings and building improvements	9,808,687	1,455,069	-	11,263,756
Fixed equipment	3,688,726	227,405	(49,045)	3,867,086
Major moveable equipment	10,551,827	1,445,433	(150,753)	11,846,507
	<u>25,021,910</u>	<u>3,153,581</u>	<u>(199,798)</u>	<u>27,975,693</u>
Capital Assets, Net	<u>\$ 50,060,126</u>	<u>\$ (2,388,406)</u>	<u>\$ (72,967)</u>	<u>\$ 47,598,753</u>

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

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Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$100,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	\$ 221,000	\$ 300,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,407,381	1,270,960
Claims paid	(1,467,381)	(1,349,960)
Balance, end of year	\$ 161,000	\$ 221,000

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended April 30, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building					
Commission bonds payable	\$ 4,925,000	\$ -	\$ -	\$ 4,925,000	\$ -
Revenue bonds payable	850,000	-	255,000	595,000	260,000
Capital leases payable	907,395	79,891	806,962	180,324	52,300
	\$ 6,682,395	\$ 79,891	\$ 1,061,962	\$ 5,700,324	\$ 312,300

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	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building					
Commission bonds					
payable	\$ 4,925,000	\$ -	\$ -	\$ 4,925,000	\$ -
Revenue bonds payable	1,095,000	-	245,000	850,000	255,000
Capital leases payable	710,249	513,500	316,354	907,395	36,300
	\$ 6,730,249	\$ 513,500	\$ 561,354	\$ 6,682,395	\$ 291,300

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Revenue Refunding Bonds (Bonds) in the original amount of \$2,610,000 dated May 1, 2003, which bear interest at 4.0% to 4.4%. The Bonds are payable in annual installments through August 1, 2014. The Hospital is required to make monthly deposits of approximately \$24,000 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after August 1, 2011. The redemption price is 100%. The Bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, restrictions on incurrence of additional debt and maintaining minimum days unrestricted cash on hand of 30 days. As of April 30, 2013, the Hospital met the debt service coverage and cash on hand covenants.

Public Building Commission Bonds Payable

The Public Building Commission bonds payable consist of Geary County, Kansas Public Building Commission Revenue Bonds Series 2006B (Geary Community Hospital) (Bonds) in the original amount of \$4,925,000 dated July 1, 2006, which bear interest at 4.2% to 4.35%. The Bonds are payable in annual installments beginning August 1, 2014 through August 1, 2031. Semi-annual interest only payments are due through August 1, 2014. The Hospital is required to make monthly deposits of approximately \$17,500 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after August 1, 2016. The redemption price is 100%. The Bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, and restrictions on incurrence of additional debt. As of April 30, 2013, the Hospital met the debt service coverage ratio covenant.

The debt service requirements of the Bonds as of April 30, 2013, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2014	\$ 489,630	\$ 260,000	\$ 229,630
2015	654,534	440,000	214,534
2016	395,860	195,000	200,860
2017	397,409	205,000	192,409
2018	393,800	210,000	183,800
2019 - 2023	1,982,525	1,205,000	777,525
2024 - 2028	2,002,563	1,510,000	492,563
2029 - 2032	1,628,654	1,495,000	133,654
	<u>\$ 7,944,975</u>	<u>\$ 5,520,000</u>	<u>\$ 2,424,975</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at April 30, 2013 and 2012, totaled \$181,551 and \$785,087, net of accumulated depreciation of \$91,040 and \$167,613, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest rates of 2.93% to 3.22% together with the present value of the future minimum lease payments as of April 30, 2013:

Year Ending April 30,	
2014	\$ 58,032
2015	55,739
2016	50,531
2017	16,647
2018	9,933
Total minimum lease payments	<u>190,882</u>
Less amount representing interest	<u>10,558</u>
Present value of future minimum lease payments	<u>\$ 180,324</u>

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Note 10: Restricted and Designated Net Positions

At April 30, 2013 and 2012, restricted expendable net positions were available for the following purposes:

	2013	2012
Debt service	\$ 649,081	\$ 618,919
Capital acquisitions	180,000	180,000
Specific operating activities		
Nursing scholarships	103,281	99,426
Total restricted expendable net position	\$ 932,362	\$ 898,345

At April 30, 2013 and 2012, \$336,428 and \$238,546, respectively, of unrestricted net position were designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remain under the control of the Board of Trustees, which may at its discretion later use for other purposes.

Note 11: Related Party Transactions

The Hospital incurred a capital lease during 2011 in the original amount of \$246,500 with the Foundation. The capital lease is part of a larger lease in which the Foundation committed to lending the Hospital a total of \$760,000, of which \$246,500 was received by the Hospital in 2011. The remaining \$513,500 was received by the Hospital during fiscal year 2012. Interest is payable at 5%. During the year ended April 30, 2013, the Hospital paid the lease and interest in full.

Note 12: Charity Care, Medicaid and Other Public Aid

Charges excluded from revenue under the Hospital's charity care policy were \$1,016,032 and \$918,615 for 2013 and 2012, respectively.

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

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Note 13: Pension Plan

The Hospital participates in the Kansas Public Employees Retirement System (KPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. The plan provides retirement, life insurance, disability income and death benefits which are established and may be changed by the Kansas Legislature with the concurrence of the Governor. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling KPERS at 1.888.275.5737.

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 of KPERS are required to contribute 4.00% of their annual covered salary and the Hospital is required to contribute at an actuarially determined rate. Employer contribution rates for KPERS for 2013, 2012 and 2011 were 8.94%, 8.34% and 7.74%, respectively. The Hospital's contributions to KPERS for 2013, 2012 and 2011 were \$1,530,857, \$1,445,545 and \$1,297,285, respectively, and were equal to the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 14: Employee Incentive Plan

The Hospital has established an incentive plan which provides for one-third of income from Hospital operations before the incentive payment (exclusive of county tax proceeds, contributions and interest income) to be shared with employees. Participants employed prior to the beginning of the fiscal year must be employed during the entire plan year, have positive employee evaluations, work more than 416 hours and be employed on the last day of the fiscal year. Participants employed after the start of the fiscal year must be employed on the last day of the fiscal year and have completed their probationary period. The plan must be approved by the Board before the beginning of each fiscal year. There were no amounts payable as of April 30, 2013 and 2012.

Note 15: Contingencies

Malpractice Claims

The Hospital has been named as a defendant in malpractice lawsuits for which no reasonable estimate of actual damages, if any, can be made at this time. Management intends to vigorously contest the current litigation and believes that damages, if any, assessed against the Hospital would be covered by existing insurance policies or would not materially affect the financial position of the Hospital, because the *Kansas Tort Claims Act* limits damages to \$500,000 or the limits of insurance, if higher.

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Note 16: Current Economic Conditions

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

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

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

Note 17: Subsequent Events

The Hospital entered into a capital lease in September 2013 for a new MRI machine. Lease payments are due monthly over the next seven years and include a required maintenance fee (no maintenance fee during the first 24 months). Monthly payments will be \$18,000 for the first 24 months and then around \$27,000 for the remaining 60 months.

The Hospital also entered into a capital lease in August 2013 for a new CT machine. Lease payments are due monthly over the next five years. Monthly payments will be \$11,650.

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 18: Geary Community Healthcare Foundation

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for the support of health and health care programs in the County and the Hospital.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2013 and 2012

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Display of Net Assets by Class

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Temporarily restricted assets received in the current year and whose restrictions are met during the year are shown as unrestricted net assets.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of one year or less to be cash equivalents. Cash and cash equivalents consist of bank accounts and certificates of deposit located at various financial institutions and brokerages.

Investments

Investments are composed of certificates of deposit with maturities longer than one year, U.S. government obligations, corporate bonds and equity securities (mutual funds) carried at fair value. Fair value is determined by quoted market prices in active markets (all Level 1 measurements).

Equipment

The Foundation's equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives. Expenditures for property, furniture and equipment in excess of \$500 and with useful lives of more than one year are capitalized.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2013 and 2012

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations are at cost or approximate fair value and are included in “Donated Staff and Facilities” on the Statements of Activities.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the Statements of Activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Annual donations are generally available for unrestricted use in the current year unless specifically restricted by the donor. The Foundation holds special fund raising events each year. The revenues from these events are reported separately from their expenses which are recorded in the Statements of Activities as a fund raising activity expense.

Investments

The Foundation’s investments as of December 31, 2012 and 2011, are summarized below and are listed at fair value. Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all Level 1 measurements).

	2012	2011
Corporate bonds	\$ 636,161	\$ 443,820
Mutual funds - equities	3,113,019	2,699,508
Total	\$ 3,749,180	\$ 3,143,328

Geary Community Hospital
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Notes to Financial Statements
April 30, 2013 and 2012

The following schedule summarized the investment return for the years ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
	Unrestricted	Unrestricted
Interest and dividends	\$ 112,993	\$ 140,172
Net realized and unrealized gain (loss) on investments	<u>370,831</u>	<u>(237,629)</u>
Total investment return	<u>\$ 483,824</u>	<u>\$ (97,457)</u>

Equipment and Property

The following is a summary of the Foundation's equipment and property as of December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Equipment and property	\$ 22,569	\$ 22,569
Less accumulated depreciation	<u>(22,340)</u>	<u>(20,509)</u>
Total	<u>\$ 229</u>	<u>\$ 2,060</u>

Annuities Payable

The Foundation has received charitable gift annuities. These split interest agreements call for payment to the annuitant, over the annuitant's life expectancy based on the IRS annuity tables. At December 31, 2012, the present value of the liability for these payments was \$26,120 and at December 31, 2011, was \$43,372.

Designated Net Assets

The Board of Trustees of the Foundation has designated \$3,000,000 of investments for specific future purposes as of December 31, 2012 and 2011, respectively. The total may be adjusted annually as determined by the Board of Trustees.

Related Entity

The Foundation works closely with the Hospital. Facilities and 20% of the Foundation's executive director's salary and benefits are provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share four common members of their Boards of Trustees.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2013 and 2012

Lease Receivable

The Foundation purchased and leased the Hospital the Meaningful Use Software System. The interest rate is 5% per annum. The total lease payment and interest are due three years from the inception date of March 1, 2011. The lease was paid in full in 2012.

The Foundation purchased and leased the Hospital an Electronic Medical Records System. The interest rate is 5% per annum. The total lease payment is due two years from the inception date. Interest is due at the end of the each month. The inception date of the lease was January 11, 2011. The lease was paid in full in 2012.

The Foundation purchased and leased the Hospital an Accounting and Billing Software System on April 20, 2010. The interest rate is 10% per annum and can be adjusted annually, never to be less than 5% or greater than 10%. The interest is paid monthly. The lease was paid in full in 2012.

Subsequent Events

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

Supplementary Information

Geary Community Hospital
A Component Unit of Geary County, Kansas
Net Patient Service Revenue
Years Ended April 30, 2013 and 2012

	2013		
	Inpatient	Outpatient	Total
Nursing, dietary and room service	\$ 4,748,836	\$ -	\$ 4,748,836
Intensive care	1,904,784	-	1,904,784
Geriatric psych unit	1,028,788	-	1,028,788
Physical rehabilitation	343,200	-	343,200
Nursery	637,705	-	637,705
Operating room	6,694,135	8,879,546	15,573,681
Extended recovery	2,434	370,975	373,409
Anesthesiology	1,206,060	1,900,910	3,106,970
Radiology, CT, MRI and Ultrasound	2,257,020	16,557,356	18,814,376
Nuclear medicine	33,306	1,643,777	1,677,083
Laboratory	2,582,204	12,989,578	15,571,782
Inhalation therapy	1,953,745	1,276,221	3,229,966
Physical therapy	259,816	1,432,177	1,691,993
Occupational therapy	189,775	409,407	599,182
Speech therapy	137,870	733,646	871,516
Cardiac pulmonary rehabilitation	227,407	755,843	983,250
Sleep lab	26,950	2,060,724	2,087,674
Central supply	3,012,685	1,855,835	4,868,520
Pharmacy	3,852,332	2,708,995	6,561,327
Emergency room	670,116	6,952,857	7,622,973
Observation	-	1,164,960	1,164,960
Emergency room physicians' fees	356,061	4,905,849	5,261,910
Pediatric clinic – RHC	173,823	1,300,671	1,474,494
Gray clinic – RHC	37,481	883,547	921,028
Jenkins clinic – RHC	31,160	415,636	446,796
Frieze clinic – RHC	32,554	452,692	485,246
Mace clinic – RHC	(11,161)	331,452	320,291
Craig clinic – RHC	107,533	392,118	499,651
Alphacare – RHC	-	946,899	946,899
Ambulance	-	-	-
Home health	-	533,867	533,867
Hospice	-	420,285	420,285
Home medical equipment	-	1,500,115	1,500,115
Family practice residency program	-	60,034	60,034
Occupational health clinic	-	69,989	69,989
Orthopedic clinic	425,422	1,334,783	1,760,205
Chapman clinic	-	132,164	132,164
Flint Hills Surgical clinic	494,270	1,380,607	1,874,877
Community wellness	-	1,320	1,320
Psych clinic	23,606	2,294	25,900
Total Hospital	\$ 33,439,917	\$ 76,757,129	110,197,046
Contractual allowances and charity care			69,179,529
Net patient service revenue			\$ 41,017,517

2012		
Inpatient	Outpatient	Total
\$ 5,278,287	\$ -	\$ 5,278,287
1,428,755	-	1,428,755
1,329,816	-	1,329,816
556,920	-	556,920
538,332	-	538,332
7,548,061	8,570,542	16,118,603
2,104	390,344	392,448
1,330,428	1,852,034	3,182,462
2,203,768	16,514,051	18,717,819
29,057	1,812,799	1,841,856
2,387,625	11,971,943	14,359,568
1,950,240	1,285,654	3,235,894
314,226	1,479,449	1,793,675
233,121	372,132	605,253
169,218	593,810	763,028
164,915	751,054	915,969
21,852	1,665,913	1,687,765
3,686,130	1,725,669	5,411,799
4,340,212	2,553,293	6,893,505
779,227	6,963,066	7,742,293
-	1,039,367	1,039,367
416,374	5,468,274	5,884,648
160,515	1,284,472	1,444,987
45,100	928,300	973,400
42,958	687,885	730,843
42,855	477,397	520,252
47,022	326,366	373,388
-	-	-
-	487,479	487,479
11,515	-	11,515
-	465,413	465,413
-	349,617	349,617
-	1,366,941	1,366,941
-	87,345	87,345
-	280,594	280,594
598,350	1,630,067	2,228,417
-	124,041	124,041
561,328	1,533,461	2,094,789
-	8,197	8,197
33,674	789	34,463
<u>\$ 36,251,985</u>	<u>\$ 75,047,758</u>	<u>111,299,743</u>
		<u>69,985,096</u>
		<u>\$ 41,314,647</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended April 30, 2013 and 2012

Contractual Allowances and Charity Care

	<u>2013</u>	<u>2012</u>
Hospital-sponsored charity care	\$ 1,016,032	\$ 918,615
Contractual allowances:		
Medicare	25,188,548	23,213,202
Medicaid	7,570,316	8,474,790
Blue Cross	11,174,562	10,597,336
Tricare	10,642,957	12,333,039
HMO/PPO	3,056,930	3,184,432
Pediatric clinic – RHC	260,999	587,210
Gray clinic – RHC	25,194	184,157
Jenkins clinic – RHC	39,050	79,139
Frieze clinic – RHC	45,165	89,089
Craig clinic – RHC	(12,480)	-
Alphacare – RHC	62,069	165,425
Chapman clinic	44,513	47,011
Flint Hills Surgical clinic	1,001,763	1,102,872
Mace clinic	38,421	82,432
Occupational health clinic	46,264	56,648
Orthopedic clinic	944,682	1,430,867
Psych clinic	10,057	17,497
Employee discounts	35,662	42,026
Administrative adjustments	2,318,041	1,674,341
Provision for uncollectible accounts	<u>5,670,784</u>	<u>5,704,968</u>
	<u>\$ 69,179,529</u>	<u>\$ 69,985,096</u>

Other Operating Revenues

	<u>2013</u>	<u>2012</u>
Cafeteria and catering	\$ 393,772	\$ 378,880
Rental income	227,062	241,938
Medical records transcript fees	56,136	50,142
Vending machine receipts	5,274	5,144
Miscellaneous	<u>99,906</u>	<u>90,448</u>
	<u>\$ 782,150</u>	<u>\$ 766,552</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Operating Expenses
Years Ended April 30, 2013 and 2012

	2013		
	Salaries	Other	Total
Nursing service	\$ 1,935,195	\$ 222,684	\$ 2,157,879
Intensive care	690,065	57,823	747,888
Geriatric psych unit	435,096	109,163	544,259
Physical rehabilitation	233,590	26,933	260,523
Nursery	123,956	4,979	128,935
Operating room	1,122,519	1,602,405	2,724,924
Anesthesiology	-	141,841	141,841
Radiology, CT, MRI and Ultrasound	962,413	782,534	1,744,947
Nuclear medicine	174,400	150,265	324,665
Laboratory	899,931	1,475,149	2,375,080
Inhalation therapy	319,673	100,852	420,525
Physical therapy	-	796,298	796,298
Occupational therapy	-	270,034	270,034
Speech therapy	-	244,357	244,357
Cardiac pulmonary rehabilitation	125,339	12,432	137,771
Sleep lab	191,045	76,134	267,179
Central supply	171,547	543,048	714,595
Pharmacy	442,390	524,115	966,505
Emergency room	1,285,134	1,421,110	2,706,244
Pediatric clinic – RHC	508,079	377,285	885,364
4th Floor MAB II clinic – RHC	1,136,962	589,254	1,726,216
Frieze clinic – RHC	270,254	105,890	376,144
Craig clinic – RHC	264,643	125,070	389,713
Alphacare – RHC	374,275	271,824	646,099
Clinic management – RHC	194,344	(195,252)	(908)
Ambulance	-	-	-
Home medical equipment	222,026	325,092	547,118
Home health	449,252	88,396	537,648
Hospice	184,167	106,398	290,565
Depreciation and amortization	-	2,916,923	2,916,923
Employee health and welfare	-	4,021,489	4,021,489
Administrative and general	2,862,407	2,942,567	5,804,974
Operation of plant	403,529	1,276,976	1,680,505
Laundry and linen	60,918	31,667	92,585
Housekeeping	590,767	111,843	702,610
Dietary	578,722	670,073	1,248,795
Dietician	65,258	3,497	68,755
Nursing administrative	834,586	123,578	958,164
Foundation	16,010	6,954	22,964
Public relations	52,794	110,479	163,273
Family practice residency program	24,523	120,562	145,085
Chapman clinic	51,840	35,913	87,753
Flint Hills Surgical clinic	908,405	428,936	1,337,341
Psych clinic	-	2,990	2,990
Ortho clinic	572,266	432,999	1,005,265
Occupational health clinic	55,808	48,671	104,479
Community wellness	5,503	-	5,503
Medical arts building	13,248	390,077	403,325
	<u>\$ 19,812,879</u>	<u>\$ 24,032,307</u>	<u>\$ 43,845,186</u>

2012		
Salaries	Other	Total
\$ 2,055,249	\$ 263,184	\$ 2,318,433
559,910	38,240	598,150
441,743	112,284	554,027
240,993	21,080	262,073
144,136	2,912	147,048
1,145,462	1,852,460	2,997,922
-	164,272	164,272
949,600	723,063	1,672,663
162,685	140,863	303,548
910,751	1,434,410	2,345,161
335,145	114,571	449,716
-	836,524	836,524
-	273,307	273,307
-	189,758	189,758
120,386	13,515	133,901
202,646	45,616	248,262
165,558	584,568	750,126
323,828	709,393	1,033,221
1,369,709	1,312,578	2,682,287
473,858	562,426	1,036,284
1,094,392	658,098	1,752,490
291,157	108,771	399,928
-	-	-
170,835	140,056	310,891
227,572	(227,202)	370
-	11,515	11,515
193,806	303,150	496,956
430,314	94,466	524,780
185,366	125,655	311,021
-	2,946,947	2,946,947
-	3,919,644	3,919,644
2,867,023	2,835,705	5,702,728
415,652	1,219,119	1,634,771
64,649	29,654	94,303
546,623	110,911	657,534
523,810	614,656	1,138,466
54,807	1,668	56,475
809,098	122,448	931,546
15,575	523	16,098
50,329	116,455	166,784
23,825	124,164	147,989
53,424	39,517	92,941
1,175,151	420,020	1,595,171
-	-	-
633,502	384,864	1,018,366
177,317	152,914	330,231
15,195	-	15,195
19,159	364,234	383,393
<u>\$ 19,640,240</u>	<u>\$ 24,012,976</u>	<u>\$ 43,653,216</u>