

**Hospital District No. 6 of Harper County, Kansas  
(d/b/a Anthony Medical Center)**

Independent Auditor's Report and Financial Statements

December 31, 2013 and 2012



**Hospital District No. 6 of Harper County, Kansas  
(d/b/a Anthony Medical Center)**

**December 31, 2013 and 2012**

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

Board of Directors  
Hospital District No. 6 of Harper County, Kansas  
d/b/a Anthony Medical Center  
Anthony, Kansas

We have audited the accompanying financial statements of Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) as of December 31, 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2013 the Medical Center implemented the provisions of GASB Statement No. 65, which changed its method of reporting of deferred inflows of resources through retroactive application to prior year's financial statements. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such 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. Our opinion on the basic financial statements is not affected by this missing information.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents is presented for purposes of additional analysis and is 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 audit 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***

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Balance Sheets December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		<i>(As Restated)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 139,703	\$ 448,060
Restricted cash	10,189	36,625
Patient accounts receivable, net of allowance; 2013 - \$307,400, 2012 - \$304,704	833,255	1,217,928
Property and sales taxes receivable	1,259,056	863,004
Estimated amounts due from third-party payers	-	160,000
Due from Medicare for electronic health records incentive	233,222	-
Supplies	152,443	113,566
Prepaid expenses and other	89,057	74,832
Total current assets	2,716,925	2,914,015
<b>Noncurrent Cash and Investments</b>		
Certificates of deposit	999,082	1,059,174
<b>Capital Assets, Net</b>	3,074,947	3,484,423
Total assets	\$ 6,790,954	\$ 7,457,612
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 90,570	\$ 170,949
Accounts payable	386,758	157,180
Accrued expenses	440,485	354,241
Estimated amounts due to Medicare	80,000	940,000
Estimated self-insurance costs	70,494	-
Total current liabilities	1,068,307	1,622,370
<b>Long-term Debt</b>	553,970	644,904
Total liabilities	1,622,277	2,267,274
<b>Deferred Inflows of Resources - Property Taxes</b>	1,199,656	806,504
<b>Net Position</b>		
Net investment in capital assets	2,421,957	2,573,405
Unrestricted	1,547,064	1,810,429
Total net position	3,969,021	4,383,834
Total liabilities, deferred inflows of resources and net position	\$ 6,790,954	\$ 7,457,612

**Hospital District No. 6 of Harper County, Kansas  
(d/b/a Anthony Medical Center)**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for bad debts	\$ 6,469,911	\$ 6,047,408
Provision for bad debts	(459,469)	(274,720)
	6,010,442	5,772,688
Net patient service revenue	6,010,442	5,772,688
Other revenues	221,694	339,375
	6,232,136	6,112,063
Total operating revenues	6,232,136	6,112,063
<b>Operating Expenses</b>		
Salaries and wages	3,969,701	3,432,121
Employee benefits	1,167,426	762,715
Purchased services and professional fees	326,862	366,557
Supplies and other		
Nursing	244,413	245,960
Other professional services	612,586	547,220
General services	279,302	238,777
Administrative services	486,956	395,930
Depreciation and amortization	745,728	751,656
Insurance	39,146	36,371
	7,872,120	6,777,307
Total operating expenses	7,872,120	6,777,307
<b>Operating Loss</b>	(1,639,984)	(665,244)
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	6,368	3,008
Interest expense	(43,296)	(51,119)
Property and sales tax appropriations	1,095,936	823,840
	1,059,008	775,729
Total nonoperating revenues	1,059,008	775,729
<b>Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts</b>	(580,976)	110,485
<b>Capital Grants and Gifts</b>	166,163	151,550
<b>Increase (Decrease) in Net Position</b>	(414,813)	262,035
<b>Net Position, Beginning of Year</b>	4,383,834	4,121,799
<b>Net Position, End of Year</b>	\$ 3,969,021	\$ 4,383,834

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Statements of Cash Flows Years Ended December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 5,461,893	\$ 7,340,978
Payments to suppliers and contractors	(1,726,074)	(2,115,178)
Payments to employees	(4,980,389)	(4,206,229)
Other receipts, net	218,794	326,875
Net cash provided by (used in) operating activities	(1,025,776)	1,346,446
<b>Noncapital Financing Activities</b>		
Property and sales taxes supporting operations	1,095,936	823,840
Net cash provided by noncapital financing activities	1,095,936	823,840
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(126,813)	(324,488)
Capital grants and gifts	121,663	151,550
Interest paid on long-term debt	(43,296)	(51,119)
Purchase of capital assets	(422,967)	(1,007,521)
Net cash used in capital and related financing activities	(471,413)	(1,231,578)
<b>Investing Activities</b>		
Purchase of certificates of deposits	(1,238,078)	(1,059,174)
Proceeds from sales and maturities of investments	1,298,170	457,906
Interest on investments	6,368	3,008
Net cash provided by (used in) investing activities	66,460	(598,260)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(334,793)	340,448
<b>Cash and Cash Equivalents, Beginning of Year</b>	484,685	144,237
<b>Cash and Cash Equivalents, End of Year</b>	\$ 149,892	\$ 484,685
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash and cash equivalents	\$ 139,703	\$ 448,060
Restricted cash	10,189	36,625
	\$ 149,892	\$ 484,685

**Hospital District No. 6 of Harper County, Kansas  
(d/b/a Anthony Medical Center)  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (1,639,984)	\$ (665,244)
Depreciation and amortization	745,728	751,656
Changes in operating assets and liabilities		
Receivables, net	384,673	(577,710)
Inventories	(38,877)	(5,260)
Prepaid expenses and other assets	(14,225)	(3,648)
Accounts payable and accrued liabilities	470,131	(299,348)
Estimated third-party payer settlements	(933,222)	2,146,000
	\$ (1,025,776)	\$ 1,346,446
 <b>Supplemental Cash Flow Information</b>		
Capital lease obligation incurred for property and equipment	\$ -	\$ 184,867
Capital assets included in accounts payable	\$ 8,450	\$ 95,165
Forgiveness of note payable	\$ 44,500	\$ -

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements

December 31, 2013 and 2012

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

#### ***Nature of Operations and Reporting Entity***

Hospital District No. 6 of Harper County, Kansas, operating as Anthony Medical Center (the Medical Center), was organized for the purpose of providing health care services to patients on an inpatient and outpatient basis in Harper County, Kansas and the surrounding area. The Medical Center is governed by a Board of Directors elected by the registered voters of the District.

#### ***Basis of Accounting and Presentation***

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources 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 property and sales taxes) 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 property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Medical Center 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 Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted of money market accounts.

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### ***Property and Sales Tax Revenues***

The Medical Center operates under Kansas statutes as a hospital district and is entitled to receive a portion of the property taxes levied by the county. These proceeds are not restricted to specific uses by the Medical Center. The county levies property taxes in August of each year for the following budgetary period January 1 through December 31, based on the assessed value of property on the previous January 1. These property tax levies are approved by the state of Kansas in November. Property tax statements are mailed out in November with amounts due in December and May. City sales taxes are collected by Anthony, Kansas and remitted to the Medical Center monthly. The 2013 and 2012 tax revenues are as follows:

	<b>2013</b>	<b>2012</b>
Property	\$ 856,186	\$ 585,477
Sales	239,750	238,363
	\$ 1,095,936	\$ 823,840

### ***Risk Management***

The Medical Center 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, except workers' compensation and employee health. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

### ***Patient Accounts Receivable***

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### **Supplies**

All supply inventories are stated at the lower of cost or market using the first-in, first-out method to determine cost.

### **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 and leasehold improvements 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 Medical Center:

Land improvements	3 - 20 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

### **Compensated Absences**

Medical Center policies permit most employees to accumulate vacation 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. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

### **Net Position**

Net position of the Medical Center is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

### **Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements

December 31, 2013 and 2012

### **Income Taxes**

As a Hospital District (a political subdivision of Harper County and the state of Kansas), the Medical Center 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 also obtained 501(c)(3) status with the IRS.

### **Uncompensated Care**

The Medical Center provides care at amounts less than its established rates to patients meeting certain criteria under its uncompensated care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as uncompensated 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 (EHR) technology. 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 Medical Center'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 Medical Center has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2013, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Medical Center recorded revenue of \$233,222, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position as of the year ended December 31, 2013.

### **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.

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### **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.

### **Implementation of New Accounting Principle**

In 2013, the Medical Center implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Adoption of GASB 65 changed how the Medical Center reports deferred revenues related to property taxes, and resulted in the following reclassification and restatements:

	As Previously Reported 2012	Implementation of GASB 65	As Restated 2012
<b>Balance Sheet Items Affected</b>			
Deferred revenue for property taxes	\$ 806,504	\$ (806,504)	\$ -
Total current liabilities	2,428,874	(806,504)	1,622,370
Total liabilities	3,073,778	(806,504)	2,267,274
Deferred inflows of resources - property taxes	-	806,504	806,504

### **Note 2: Net Patient Service Revenue**

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

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

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements

December 31, 2013 and 2012

*Medicaid.* The Medicaid state plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries through December 31, 2012. The Medical Center is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Medical Center and reviews thereof by the Kansas Department of Health and Environment. Effective January 1, 2013, the Medical Center is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 59% and 68% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, 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 Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center 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 impact of that decision on the overall reimbursement of the Medical Center 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 Medical Center's net patient service revenue.

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

Additionally, it is possible the Medical Center will experience payment delays and other operational challenges during the PPACA's implementation.

### Note 3: Deposits

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

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

At December 31, 2013 and 2012, none of the Medical Center's bank balances of \$1,181,523 and \$1,638,049 were exposed to custodial credit risk.

### Summary of Carrying Values

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

	<b>2013</b>	<b>2012</b>
Carrying value		
Deposits	\$ 1,138,485	\$ 1,506,934
Restricted cash deposits	10,189	36,625
Petty cash	300	300
	<b>\$ 1,148,974</b>	<b>\$ 1,543,859</b>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 139,703	\$ 448,060
Restricted cash deposits	10,189	36,625
Noncurrent cash and investments	999,082	1,059,174
	<b>\$ 1,148,974</b>	<b>\$ 1,543,859</b>

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### Note 4: Patient Accounts Receivable

The Medical Center 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 consisted of:

	2013	2012
Medicare	\$ 361,622	\$ 720,719
Medicaid	61,380	23,245
Other third-party payers	223,232	280,256
Patients	494,421	498,412
	1,140,655	1,522,632
Less allowance for uncollectible accounts	307,400	304,704
	\$ 833,255	\$ 1,217,928

### Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 5,104	\$ -	\$ -	\$ -	\$ 5,104
Land improvements	412,431	-	-	-	412,431
Buildings	3,700,884	16,821	-	-	3,717,705
Construction in process	-	338,718	(88,301)	(250,417)	-
Equipment – major and minor	4,751,255	69,014	-	250,417	5,070,686
Leasehold improvements	6,228	-	-	-	6,228
	8,875,902	424,553	(88,301)	-	9,212,154
Less accumulated depreciation					
Land improvements	(175,400)	(25,026)	-	-	(200,426)
Buildings	(1,989,656)	(131,069)	-	-	(2,120,725)
Equipment – major and minor	(3,220,223)	(589,605)	-	-	(3,809,828)
Leasehold improvements	(6,200)	(28)	-	-	(6,228)
	(5,391,479)	(745,728)	-	-	(6,137,207)
Capital Assets, Net	\$ 3,484,423	\$ (321,175)	\$ (88,301)	\$ -	\$ 3,074,947

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 5,104	\$ -	\$ -	\$ -	\$ 5,104
Land improvements	412,431	-	-	-	412,431
Buildings	3,656,708	17,335	-	26,841	3,700,884
Construction in process	-	26,841	-	(26,841)	-
Equipment – major and minor	4,679,249	72,006	-	-	4,751,255
Leasehold improvements	6,228	-	-	-	6,228
	8,759,720	116,182	-	-	8,875,902
Less accumulated depreciation					
Land improvements	(144,902)	(30,498)	-	-	(175,400)
Buildings	(1,857,260)	(132,396)	-	-	(1,989,656)
Equipment – major and minor	(2,631,486)	(588,737)	-	-	(3,220,223)
Leasehold improvements	(6,175)	(25)	-	-	(6,200)
	(4,639,823)	(751,656)	-	-	(5,391,479)
Capital Assets, Net	\$ 4,119,897	\$ (635,474)	\$ -	\$ -	\$ 3,484,423

### Note 6: Medical Malpractice Coverage and Claims

The Medical Center purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### Note 7: Employee Health Claims

Effective January 1, 2013, substantively all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$25,000 per covered employee. 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 by not yet reported. The accrual is estimated based on consideration of prior claim experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2013 is summarized as follows:

Balance, beginning of year	\$	-
Current year claims incurred and changes in estimates for claims incurred in prior years		330,292
Claims and expenses paid		<u>(259,798)</u>
Balance, end of year	\$	<u><u>70,494</u></u>

### Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31:

		<b>2013</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
Capital lease obligations		<u>\$ 815,853</u>	<u>\$ -</u>	<u>\$ 171,313</u>	<u>\$ 644,540</u>	<u>\$ 90,570</u>

		<b>2012</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
Capital lease obligations		<u>\$ 955,474</u>	<u>\$ 184,867</u>	<u>\$ 324,488</u>	<u>\$ 815,853</u>	<u>\$ 170,949</u>

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

### **Capital Lease Obligations**

The Medical Center is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2013 and 2012, totaled \$909,468 and \$1,019,500, net of accumulated depreciation of \$381,105 and \$401,300, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 4.50% to 7.99%, together with the present value of the future minimum lease payments as of December 31, 2013:

2014	\$	127,244
2015		108,976
2016		88,556
2017		88,556
2018		88,556
2019-2023		337,470
2024		2,097
Total minimum lease payments		841,455
Less amount representing interest		196,915
 Present value of future minimum lease payments	 \$	 <u><u>644,540</u></u>

### **Note 9: Cost-sharing Multiple-employer Defined Benefit Plan**

#### **Plan Description**

The Medical Center contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Medical Center is contractually required to contribute for the year. The plan provides retirement and disability benefits including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869, or by calling 1.888.275.5737.

#### **Funding Policy**

The authority to establish and amend requirements of plan members and the Medical Center 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 Medical Center is required to contribute at an actuarially determined rate; the rate was 7.94%, 7.34% and 6.74% of annual covered payroll for

# Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

## Notes to Financial Statements December 31, 2013 and 2012

2013, 2012 and 2011, respectively. The Medical Center's contributions to the plan for 2013, 2012 and 2011 were \$280,578, \$245,939 and \$221,624, respectively, which equaled the required contribution for the year. State law limits the Medical Center's future contribution rate increases to a maximum of 0.6% plus the cost of any benefit enhancements.

### Note 10: Hospital Foundation

Anthony Medical Center and Clinic Association Foundation (Foundation) is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting the Medical Center and assisting community activities relating to providing health care services. The unaudited financial position and results of operations of the Foundation as of and for the years ended December 31, 2013 and 2012, are summarized as follows:

	<b>2013</b>	<b>2012</b>
Investments	\$ 659,980	\$ 528,726
Net assets	\$ 659,980	\$ 528,726
Revenue	\$ 128,243	\$ 273,132
Expenses	242,483	126,278
Revenue over (under) expenses	\$ (114,240)	\$ 146,854

The Foundation provided \$65,826 and \$69,571 of support to the Medical Center during the years ended December 31, 2013 and 2012, respectively.

### Note 11: Risks and Uncertainties

#### *Litigation*

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

## **Supplementary Information**

**Hospital District No. 6 of Harper County, Kansas  
(d/b/a Anthony Medical Center)**  
**Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget  
Year Ended December 31, 2013**

	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Net Patient Service Revenue	\$ 5,461,893	\$ 5,850,000	\$ (388,107)
Other	<u>621,214</u>	<u>277,500</u>	<u>343,714</u>
Total Revenue	6,083,107	6,127,500	(44,393)
Operating Expenses, Less Depreciation and Amortization Including Interest Expense	<u>6,820,253</u>	<u>7,735,000</u>	<u>(914,747)</u>
Operating Loss Before Tax Support	<u><u>\$ (737,146)</u></u>	<u><u>\$ (1,607,500)</u></u>	<u><u>\$ 870,354</u></u>