

Grisell Memorial Hospital District No. 1

Independent Auditor's Report and Financial Statements

December 31, 2013 and 2012



Grisell Memorial Hospital District No. 1
December 31, 2013 and 2012

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Independent Auditor's Report

Board of Directors
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have audited the accompanying financial statements of Grisell Memorial Hospital District No. 1, which comprise the balance sheets 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 and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grisell Memorial Hospital District No. 1 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 Hospital District adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which changed its method of accounting for reporting of deferred inflows and outflows of resources. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
May 28, 2014

Grisell Memorial Hospital District No. 1

Balance Sheets

December 31, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash	\$ 500,727	\$ 768,533
Certificates of deposit	700,857	696,664
Patient accounts receivable, net	1,108,645	407,011
Estimated amounts due from third-party payers	-	50,000
Supplies	61,544	57,614
Prepaid expenses and other	27,535	38,742
Property taxes receivable	953,803	897,955
	<u>3,353,111</u>	<u>2,916,519</u>
Total current assets		
Noncurrent Cash and Investments	<u>817,561</u>	<u>812,995</u>
Capital Assets, Net	<u>1,446,174</u>	<u>1,559,018</u>
Total assets	<u>\$ 5,616,846</u>	<u>\$ 5,288,532</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of capital lease obligations	\$ 74,960	\$ 81,075
Accounts payable	77,148	80,196
Accrued salaries	150,454	134,523
Accrued payroll taxes	55,111	50,033
Accrued benefits	147,093	108,189
Estimated amounts due to third-party payers	<u>180,506</u>	<u>-</u>
Total current liabilities	685,272	454,016
Capital Lease Obligations	<u>542,105</u>	<u>707,065</u>
Total liabilities	<u>1,227,377</u>	<u>1,161,081</u>
Deferred Inflows of Resources		
Property taxes	<u>953,803</u>	<u>897,955</u>
Net Position		
Net investment in capital assets	829,109	770,878
Restricted - expendable for		
Specific operating activities	29,886	28,885
Unrestricted	<u>2,576,671</u>	<u>2,429,733</u>
Total net position	<u>3,435,666</u>	<u>3,229,496</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,616,846</u>	<u>\$ 5,288,532</u>

Grisell Memorial Hospital District No. 1
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue	\$ 4,052,722	\$ 3,793,447
Other	149,024	152,298
Total operating revenues	4,201,746	3,945,745
Operating Expenses		
Salaries and wages	2,474,558	2,334,812
Supplies and other	2,295,445	1,975,498
Depreciation	196,393	91,172
Gain on sale of capital assets	(3,510)	(50)
Total operating expenses	4,962,886	4,401,432
Operating Loss	(761,140)	(455,687)
Nonoperating Revenues (Expenses)		
Property taxes	914,560	777,960
Interest income	10,227	15,204
Noncapital grants and gifts	59,267	23,176
Interest expense	(16,744)	(3,534)
Total nonoperating revenues	967,310	812,806
Increase in Net Position	206,170	357,119
Net Position, Beginning of Year	3,229,496	2,872,377
Net Position, End of Year	\$ 3,435,666	\$ 3,229,496

Grisell Memorial Hospital District No. 1
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 3,581,594	\$ 4,105,457
Payments to employees	(2,419,723)	(2,333,204)
Payments to suppliers and contractors	(2,286,138)	(1,956,948)
Other receipts, net	<u>149,024</u>	<u>152,298</u>
Net cash used in operating activities	<u>(975,243)</u>	<u>(32,397)</u>
Noncapital Financing Activities		
Property taxes supporting operations	914,560	777,960
Noncapital grants and gifts	<u>59,267</u>	<u>23,176</u>
Net cash provided by noncapital financing activities	<u>973,827</u>	<u>801,136</u>
Capital and Related Financing Activities		
Purchase of capital assets	(83,549)	(470,521)
Principal paid on capital lease obligations	(171,075)	(10,986)
Interest paid on capital lease obligations	(16,744)	(3,534)
Proceeds on sale of capital assets	<u>3,510</u>	<u>50</u>
Net cash used in capital and related financing activities	<u>(267,858)</u>	<u>(484,991)</u>
Investing Activities		
Interest income received	10,227	15,204
Net change in certificates of deposit	(4,193)	43,532
Net change in noncurrent investments	<u>(4,015)</u>	<u>43,812</u>
Net cash provided by investing activities	<u>2,019</u>	<u>102,548</u>
Increase (Decrease) in Cash	(267,255)	386,296
Cash, Beginning of Year	<u>793,718</u>	<u>407,422</u>
Cash, End of Year	<u>\$ 526,463</u>	<u>\$ 793,718</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 500,727	\$ 768,533
Cash in noncurrent cash and investments	<u>25,736</u>	<u>25,185</u>
	<u>\$ 526,463</u>	<u>\$ 793,718</u>

Grisell Memorial Hospital District No. 1
Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Net Operating Revenue to Net Cash		
Used in Operating Activities		
Operating loss	\$ (761,140)	\$ (455,687)
Depreciation	196,393	91,172
Gain on sale of capital assets	(3,510)	(50)
Provision for uncollectible accounts	277,634	16,170
Changes in operating assets and liabilities		
Patient accounts receivable, net	(979,268)	65,840
Estimated amounts due from and to third-party payers	230,506	230,000
Supplies	(3,930)	582
Prepaid expenses and other current assets	11,207	21,675
Accounts payable and accrued expenses	56,865	(2,099)
Net cash used in operating activities	<u>\$ (975,243)</u>	<u>\$ (32,397)</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 750,000

Grisell Memorial Hospital District No. 1

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

Grisell Memorial Hospital District No. 1 (Hospital District), located in Ransom, Kansas, is organized and operating under Kansas law and is governed by a Board of Directors. The Hospital District operates a hospital which provides acute and long-term care services and operates outpatient clinics.

Basis of Accounting and Presentation

The financial statements of the Hospital District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows 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 county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital District considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2013 and 2012.

Budgetary Principles

The Hospital District is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital District's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2013 and 2012

Property Taxes

The Hospital District received approximately 18% and 16% of its financial support from property taxes in 2013 and 2012, respectively. One hundred percent of these funds were used to support operations in both years.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year tax basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

Risk Management

The Hospital District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Noncurrent cash and investments include 1) funds internally designated by the Board of Directors to be used for physician recruitment and replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors and grantors for student scholarships/loans and other specific purposes. The internally designated funds may be used for other purposes by action of the Board of Directors. Noncurrent cash and investments consist of certificates of deposit, which are carried at amortized cost, and savings accounts.

Investment income includes dividend and interest income.

Patient Accounts Receivable

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

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Notes to Financial Statements

December 31, 2013 and 2012

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 District:

Land improvements	8-15 years
Buildings	10-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

Compensated Absences

Hospital District 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. 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 rates in effect at the balance sheet date.

Net Position

Net position of the Hospital District 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 of those assets. Restricted expendable net position represents noncapital assets that must be used for a particular purpose as specified by grantors or donors external to the Hospital District. Unrestricted net position represents remaining assets less remaining liabilities that do not meet the above conditions.

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Notes to Financial Statements

December 31, 2013 and 2012

Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital District 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 District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital District is subject to federal income tax on any unrelated business taxable income.

Change in Accounting Principle

In 2013, the Hospital District adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of 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. As a result, deferred property tax revenue is reclassified from a previously reported liability to deferred inflows of resources. The change had no effect on the change in net position.

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.

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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital District is recognized as a critical access hospital (CAH). Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital District is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital District and audits thereof by the Medicare administrative contractor.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries for services through December 31, 2012. The Hospital District is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital District and reviews thereof by the Kansas Department of Health and Environment. Effective January 1, 2013, the Hospital District 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. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital District is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Current payment rates were last updated using 2008, 2009 and 2010 cost report data. Base rates have not been rebased or inflated since July 1, 2010, however, effective January 1, 2014, an additional 1.25% payment add-on was approved. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 70% and 75% of net patient service revenues are 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 Hospital District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital District under these agreements includes prospectively determined case rates and discounts from established charges and prospectively determined daily rates.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2013 and 2012

Net patient service revenue for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Gross patient service revenue	\$ 4,004,857	\$ 3,102,280
Plus (less):		
Contractual adjustments		
Medicare	467,827	697,152
Medicaid	127,659	182,837
Blue Cross	(231,467)	(127,870)
Other	(20,240)	(25,855)
Administrative adjustments	(12,559)	(9,042)
Charity care	(5,721)	(9,885)
Provision for uncollectible accounts	(277,634)	(16,170)
	<u>\$ 4,052,722</u>	<u>\$ 3,793,447</u>

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital District'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, respectively, none of the Hospital District's bank balances of \$2,024,415 and \$2,317,511 were exposed to custodial credit risk.

Summary of Carrying Values

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

	2013	2012
Cash	\$ 500,727	\$ 768,533
Certificates of deposit	700,857	696,664
Noncurrent cash and investments	817,561	812,995
	<u>\$ 2,019,145</u>	<u>\$ 2,278,192</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2013 and 2012

Note 4: Patient Accounts Receivable

The Hospital District 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	\$ 550,002	\$ 191,205
Medicaid	424,951	82,618
Blue Cross	144,072	47,884
Other third-party payers	84,682	28,669
Self-pay	347,022	237,089
	1,550,729	587,465
Less allowance for uncollectible accounts	(442,084)	(180,454)
	\$ 1,108,645	\$ 407,011

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2013 and 2012, was:

	2013			
	Beginning Balance	Additions	Disposals	
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,430,083	37,136	(14,840)	1,452,379
Fixed equipment	1,374,961	-	(42,732)	1,332,229
Moveable equipment	752,454	46,413	(26,272)	772,595
	3,607,035	83,549	(83,844)	3,606,740
Less accumulated depreciation				
Land improvements	40,385	803	-	41,188
Buildings	1,223,583	33,127	(14,840)	1,241,870
Fixed equipment	195,685	101,723	(42,732)	254,676
Moveable equipment	588,364	60,740	(26,272)	622,832
	2,048,017	196,393	(83,844)	2,160,566
Capital Assets, Net	\$ 1,559,018	\$ (112,844)	\$ -	\$ 1,446,174

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2013 and 2012

	2012			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,430,083	-	-	1,430,083
Fixed equipment	200,250	1,175,300	(589)	1,374,961
Moveable equipment	713,126	45,221	(5,893)	752,454
	<u>2,392,996</u>	<u>1,220,521</u>	<u>(6,482)</u>	<u>3,607,035</u>
Less accumulated depreciation				
Land improvements	39,582	803	-	40,385
Buildings	1,193,306	30,277	-	1,223,583
Fixed equipment	195,498	776	(589)	195,685
Moveable equipment	534,941	59,316	(5,893)	588,364
	<u>1,963,327</u>	<u>91,172</u>	<u>(6,482)</u>	<u>2,048,017</u>
Capital Assets, Net	<u>\$ 429,669</u>	<u>\$ 1,129,349</u>	<u>\$ -</u>	<u>\$ 1,559,018</u>

Note 6: Capital Lease Obligations

Capital lease obligation activity for the years ended December 31, 2013 and 2012, was:

	2013				Amounts Due Within One Year
	Beginning Balance	Additions	Deductions	Ending Balance	
Capital lease obligations	<u>\$ 788,140</u>	<u>\$ -</u>	<u>\$ (171,075)</u>	<u>\$ 617,065</u>	<u>\$ 74,960</u>
	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	<u>\$ 49,126</u>	<u>\$ 750,000</u>	<u>\$ (10,986)</u>	<u>\$ 788,140</u>	<u>\$ 81,075</u>

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2013 and 2012

A schedule of the cost and accumulated depreciation on equipment under capital leases at December 31, 2013 and 2012, is as follows:

	2013	2012
Fixed and moveable equipment	\$ 1,237,100	\$ 1,237,100
Accumulated depreciation	(139,582)	(26,836)
	\$ 1,097,518	\$ 1,210,264

The following is a schedule by year of future minimum lease payments under the capital lease including interest rates of 2.75% to 6.96% together with the present value of the future minimum lease payments:

Year ending December 31,	
2014	\$ 94,952
2015	89,463
2016	89,463
2017	89,463
2018	89,463
2019 - 2022	263,790
Total minimum lease payments	716,594
Less amount representing interest	99,529
Present value of future minimum lease payments	\$ 617,065

Note 7: Medical Malpractice Coverage and Claims

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

Note 8: Pension Plan

The Hospital District maintains a contributory defined contribution pension plan for all eligible employees. Eligibility is established by all employees 18 years of age or older who have completed one year of service. The plan provides elective employee contributions of 2.5% of the first \$16,000 of annual compensation and 5% of annual compensation in excess of \$16,000. Matching employer contributions are computed at 5% of the first \$16,000 of annual compensation and 10% of annual compensation in excess of \$16,000. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits begin to vest after one year of service with 100% vesting after five years of

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2013 and 2012

service. All funds contributed by the Hospital District, which are not vested, will be returned to the plan and remain in the plan to reduce future employer contributions to the plan. Contributions actually made by plan members totaled \$129,347 and \$125,241 in 2013 and 2012, respectively. Hospital District contributions totaled \$160,457 and \$164,575 in 2013 and 2012, respectively.

Note 9: Management/Services Agreement

The Board of Directors of the Hospital District has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital District for the years ended December 31, 2013 and 2012, were \$234,594 and \$207,567, respectively. Amounts payable to GPHA at December 31, 2013 and 2012, totaled \$20,621 and \$26,210, respectively.

Note 10: Compliance with Budgetary Statutes

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital's enterprise fund, which are on an annualized calendar year basis as follows:

	2013		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	\$ 914,560	\$ 925,702	\$ 11,142
Patient related revenues	4,330,356	4,097,410	(232,946)
Interest income	10,227	18,500	8,273
Other	208,291	269,582	61,291
Total revenues	5,463,434	5,311,194	(152,240)
Expenses			
Patient related expenses	4,770,003	5,131,840	361,837
Interest expense	16,744	-	(16,744)
Capital outlay	83,549	1,275,000	1,191,451
Other	(3,510)	4,483	7,993
Total expenses	4,866,786	6,411,323	1,544,537
Excess (deficit) of revenues over expenses	\$ 596,648	\$ (1,100,129)	\$ (1,696,777)

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Notes to Financial Statements

December 31, 2013 and 2012

	2012		Variance Under (Over)
	Actual	Budget	
General Fund			
Revenues			
Taxes	\$ 777,960	\$ 829,526	\$ 51,566
Patient related revenues	3,809,617	3,875,082	65,465
Interest income	15,204	23,477	8,273
Other	175,474	144,466	(31,008)
	4,778,255	4,872,551	94,296
Expenses			
Patient related expenses	4,310,310	4,766,373	456,063
Interest expense	3,534	-	(3,534)
Capital outlay	1,220,521	150,000	(1,070,521)
Other	(50)	2,002	2,052
	5,534,315	4,918,375	(615,940)
Excess (deficit) of revenues over expenses	\$ (756,060)	\$ (45,824)	\$ 710,236

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with accounting principles generally accepted in the United States of America and for reporting on the budgetary basis:

	2013	2012
Increase in net position - financial basis	\$ 206,170	\$ 357,119
Depreciation	196,393	91,172
Provision for uncollectible accounts	277,634	16,170
Capital outlay	(83,549)	(1,220,521)
Excess (deficit) of revenues over expenses	\$ 596,648	\$ (756,060)

Note 11: 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

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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 District 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 District's net patient service revenue. Additionally, it is possible the Hospital District will experience payment delays and other operational challenges during the PPACA's implementation.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 2*.