

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2012 AND 2011

George, Bowerman & Noel, P.A.
Certified Public Accountants

CONTENTS

	<u>Page</u>
Independent auditor's report.....	1
Management's discussion and analysis	3
Financial statements:	
Balance sheets.....	8
Statements of revenues, expenses, and changes in net position	10
Statements of cash flows	11
Notes to financial statements.....	13
Additional information:	
Schedule of revenues, expenditures, and changes in fund balances – Budget and actual – Budgetary basis – Operations and maintenance fund	32
Schedule of revenues, expenditures, and changes in fund balances – Budget and actual – Budgetary basis – Employee benefits fund	33
Schedule of patient service revenue	34
Schedule of operating expenses by functional division.....	35

George, Bowerman & Noel, P.A.

Certified Public Accountants

Business Consultants

Tax Advisors

Epic Center • 301 N. Main, Suite 1350 • Wichita, Kansas 67202 • Telephone (316) 262-6277 • Fax (316) 265-6150

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hospital District No. 1,
Sumner County, Kansas
Caldwell, Kansas

We have audited the accompanying financial statements of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, 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 audit. We conducted our audit 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit as of December 31, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. 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 audit 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.

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the basic 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 additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

George, Brewster & Noel, P.A.

Wichita, Kansas
April 23, 2013

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hospital District No. 1, Sumner County, Kansas (Hospital District's) financial performance provides an overview of the Hospital District's financial activities for the fiscal years ended December 31, 2012 and 2011. Please read it in conjunction with the Hospital District's financial statements, which begin on page 8.

Financial Highlights

- The Hospital District's net position decreased in 2012 by \$30,220 or 1.44% compared to an increase in 2011 of \$365,347 or 21.08 %.
- The Hospital District reported an operating loss in both 2012 (\$455,385) and 2011 (\$167,388). The operating loss in 2012 increased by \$287,997 or 172.05% over the loss reported in 2011. The operating loss in 2011 decreased by \$218,911 or 56.67% over 2010.
- Net nonoperating revenues/expenses increased by \$6,910 or 1.65% in 2012 compared to 2011. Net nonoperating revenues/expenses increased in 2011 by \$26,785 or 6.84% compared to 2010.

Financial Statements

The Hospital District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and change in net position*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Hospital District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Hospital District's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital District's cash receipts and cash payments during the year.

Financial Position

The information below summarizes the Hospital District's net position as of December 31, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$1,984,097	\$1,756,758	\$1,542,794
Capital assets, net	951,459	959,642	1,087,561
Other noncurrent assets	<u>107,935</u>	<u>107,402</u>	<u>106,834</u>
Total assets	<u>\$3,043,491</u>	<u>\$2,823,802</u>	<u>\$2,737,189</u>
Liabilities:			
Long-term liabilities	\$ 140,991	\$ 43,024	\$ 82,806
Other liabilities	<u>834,512</u>	<u>682,570</u>	<u>921,522</u>
Total liabilities	<u>\$ 975,503</u>	<u>\$ 725,594</u>	<u>\$1,004,328</u>
Net position:			
Invested in capital assets, net	\$ 771,603	\$ 903,989	\$ 695,541
Restricted	14,647	21,773	15,972
Unrestricted	<u>1,281,738</u>	<u>1,172,446</u>	<u>1,021,348</u>
Total net position	<u>\$2,067,988</u>	<u>\$2,098,208</u>	<u>\$1,732,861</u>

Recent Financial Performance

The schedule below is a summary of the Hospital District's revenues, expenses and changes in net position for the years ended December 31, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 3,970,128	\$ 4,103,401	\$ 3,870,443
Operating expenses:			
Salaries	1,789,094	1,793,273	1,823,142
Supplies and other	2,417,024	2,152,166	2,098,015
Depreciation and amortization	<u>219,395</u>	<u>325,350</u>	<u>335,585</u>
Total operating expenses	<u>4,425,513</u>	<u>4,270,789</u>	<u>4,256,742</u>
Loss from operations	<u>(455,385)</u>	<u>(167,388)</u>	<u>(386,299)</u>
Nonoperating revenues/expenses:			
Taxes	373,801	350,620	338,501
Noncapital grants and contributions	16,821	28,657	17,775
Other, net	<u>34,543</u>	<u>38,978</u>	<u>35,194</u>
Total nonoperating revenues/expenses	<u>425,165</u>	<u>418,255</u>	<u>391,470</u>
Capital grants and contributions	<u>—</u>	<u>114,480</u>	<u>—</u>
Increase (decrease) in net position	<u>\$ (30,220)</u>	<u>\$ 365,347</u>	<u>\$ 5,171</u>
Net position at end of year	<u>\$ 2,067,988</u>	<u>\$ 2,098,208</u>	<u>\$ 1,732,861</u>

The first component of the overall change in the Hospital District's net position is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital District has reported an operating loss. This is consistent with the Hospital District's entire operating history. The operating loss in 2012 increased by \$287,997 or 172.05% higher than the operating loss reported in 2011. The operating loss in 2011 decreased by \$218,911 or 56.67% lower than the operating loss reported in 2010. The increase in the operating loss was due, in part, to the Hospital District qualifying for incentive payments of approximately \$509,000 from the Medicare and Medicaid programs upon meeting the requirements for an electronic health record (EHR) system in 2011.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital District. A component of the Hospital District's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

Nonoperating revenues consist primarily of property taxes levied by the Hospital District, investment earnings, interest expense on long-term debt, and grants and contributions.

Capital Assets

At the end of 2012, the Hospital District had \$771,603 invested in capital assets, net of accumulated depreciation and debt outstanding for the acquisition of capital assets, as detailed in Notes 5 and 6 to the financial statements. The Hospital District acquired new capital assets of approximately \$214,000 and \$215,000 in 2012 and 2011, respectively.

Debt

The Hospital leases certain property and equipment under capital lease agreements including new leases in 2012 for \$178,236 for medical equipment.

Other Economic Factors

The assessed valuation for the Hospital District for 2013 is \$17,827,457 which is an increase of \$505,698 or 2.92% from the assessed valuation for 2012 of \$17,321,759. The total ad valorem taxes levied for 2013 was \$325,376 compared to \$322,911 for 2012.

Issues Facing the Hospital District

There are issues facing the Hospital District that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital District's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Employment and labor issues. The Hospital District is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital District in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.

- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital District are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital District.

Contacting The Hospital District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital District's finances and to show the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital District Administration Department, at Sumner County Hospital District No. 1, 601 S. Osage, Caldwell, Kansas, 67022.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

ASSETS

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current assets:				
Cash and cash equivalents (Notes 1 and 3)	\$ 843,697	\$ 275,160	\$ 242,250	\$ 87,177
Accounts receivable, net of allowance for doubtful accounts of \$108,678 in 2012 and \$101,246 in 2011 (Notes 1 and 8)	649,040	359,895	-	-
Uncollected current property taxes receivable (Note 1)	318,996	315,960	-	-
Inventories (Note 1)	146,289	145,483	-	-
Estimated third-party payor settlements (Note 2)	-	623,505	-	-
Prepaid expenses and other	<u>26,075</u>	<u>36,755</u>	<u>5,000</u>	<u>5,000</u>
Total current assets	<u>1,984,097</u>	<u>1,756,758</u>	<u>247,250</u>	<u>92,177</u>
Noncurrent cash and investments:				
Board designated assets (Note 3)	107,935	107,402	-	-
Other investments (Note 3)	<u>-</u>	<u>-</u>	<u>40,672</u>	<u>35,738</u>
Total noncurrent cash and investments	<u>107,935</u>	<u>107,402</u>	<u>40,672</u>	<u>35,738</u>
Property and equipment, at cost (Notes 1, 5 and 6):				
Land	5,085	5,085	5,000	5,000
Land improvements	60,500	60,500	3,405	3,405
Building	909,877	909,877	157,833	157,833
Fixed equipment	853,842	848,479	-	-
Movable equipment	<u>2,516,862</u>	<u>2,321,845</u>	<u>-</u>	<u>-</u>
Total property and equipment	4,346,166	4,145,786	166,238	166,238
Less accumulated depreciation	<u>3,394,707</u>	<u>3,186,144</u>	<u>71,201</u>	<u>62,695</u>
Net property and equipment	<u>951,459</u>	<u>959,642</u>	<u>95,037</u>	<u>103,543</u>
Total noncurrent assets	<u>1,059,394</u>	<u>1,067,044</u>	<u>135,709</u>	<u>139,281</u>
Total assets	<u>\$ 3,043,491</u>	<u>\$ 2,823,802</u>	<u>\$ 382,959</u>	<u>\$ 231,458</u>

LIABILITIES AND NET POSITION

	Primary Government		Component Unit	
	2012	2011	2012	2011
Current liabilities:				
Accounts payable	\$ 110,515	\$ 191,745	\$ -	\$ -
Salaries and wages payable	84,262	66,730	-	-
Payroll taxes payable	9,090	7,406	-	-
Estimated third-party payor settlements (Note 2)	190,156	-	-	-
Current portion of compensated absences payable (Notes 1 and 5)	62,797	66,956	-	-
Unearned revenue-uncollected current property taxes (Note 1)	318,996	315,960	-	-
Current portion of long-term debt (Note 5)	58,696	33,773	-	-
Total current liabilities	834,512	682,570	-	-
Non-current liabilities:				
Long-term debt (Note 5)	121,160	21,880	-	-
Compensated absences payable (Notes 1 and 5)	19,831	21,144	-	-
Total non-current liabilities	140,991	43,024	-	-
Total liabilities	975,503	725,594	-	-
Net position (Notes 1 and 4):				
Invested in capital assets net of related debt	771,603	903,989	95,037	103,543
Restricted – expendable for specific operating activities	14,647	21,773	-	-
Unrestricted	1,281,738	1,172,446	287,922	127,915
Total net position	2,067,988	2,098,208	382,959	231,458
Total liabilities and net position	\$ 3,043,491	\$ 2,823,802	\$ 382,959	\$ 231,458

The accompanying notes are an integral
part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION

YEARS DECEMBER 31, 2012 AND 2011

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Operating revenues:				
Net patient service revenue	\$3,898,633	\$3,560,973	\$ -	\$ -
Ambulance subsidy	33,045	33,395	-	-
Grants and contributions	-	-	120,435	-
Rent income	-	-	45,600	45,600
Other (Note 2)	<u>38,450</u>	<u>509,033</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>3,970,128</u>	<u>4,103,401</u>	<u>166,035</u>	<u>45,600</u>
Operating expenses:				
Salaries	1,789,094	1,793,273	-	-
Supplies and other	2,417,024	2,152,166	11,872	9,957
Depreciation and amortization	<u>219,395</u>	<u>325,350</u>	<u>8,507</u>	<u>8,484</u>
Total operating expenses	<u>4,425,513</u>	<u>4,270,789</u>	<u>20,379</u>	<u>18,441</u>
Operating income (loss)	<u>(455,385)</u>	<u>(167,388)</u>	<u>145,656</u>	<u>27,159</u>
Non-operating revenues (expenses):				
Tax revenues	373,801	350,620	-	-
Investment return	1,531	829	5,845	(1,239)
Interest expense	(11,676)	(14,933)	-	-
Noncapital grants and contributions	16,821	28,657	-	-
Other	<u>44,688</u>	<u>53,082</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>425,165</u>	<u>418,255</u>	<u>5,845</u>	<u>(1,239)</u>
Excess of revenues over expenses before capital grants and contributions	(30,220)	250,867	151,501	25,920
Capital grants and contributions	<u>-</u>	<u>114,480</u>	<u>-</u>	<u>(114,480)</u>
Increase (decrease) in net position	(30,220)	365,347	151,501	(88,560)
Net position at beginning of year	<u>2,098,208</u>	<u>1,732,861</u>	<u>231,458</u>	<u>320,018</u>
Net position at end of year	<u>\$2,067,988</u>	<u>\$2,098,208</u>	<u>\$ 382,959</u>	<u>\$ 231,458</u>

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Primary Government		Component Unit	
	2012	2011	2012	2011
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 4,423,149	\$ 3,403,533	\$ -	\$ -
Payments to suppliers and contractors	(1,901,191)	(1,572,676)	(11,872)	(9,957)
Payments to employees	(2,362,539)	(2,332,583)	-	-
Other receipts and payments, net	<u>71,495</u>	<u>542,428</u>	<u>166,035</u>	<u>45,600</u>
Net cash flows provided by operating activities	<u>230,914</u>	<u>40,702</u>	<u>154,163</u>	<u>35,643</u>
Cash flows from noncapital financing activities:				
Property taxes	373,801	350,620	-	-
Noncapital grants and contributions	16,821	28,657	-	-
Other	<u>44,688</u>	<u>37,804</u>	<u>-</u>	<u>-</u>
Net cash flows provided by noncapital financing activities	<u>435,310</u>	<u>417,081</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Capital grants and contributions	-	114,480	-	(114,480)
Principal payments on long-term debt	(54,033)	(306,328)	-	-
Interest paid on long-term debt	(11,676)	(14,933)	-	-
Proceeds from sale of assets	2,498	2,648	-	-
Purchases of capital assets	<u>(35,474)</u>	<u>(214,840)</u>	<u>-</u>	<u>-</u>
Net cash flows used by capital and related financing activities	<u>(98,685)</u>	<u>(418,973)</u>	<u>-</u>	<u>(114,480)</u>
Cash flows from investing activities:				
Changes in board-designated assets, net	(533)	(568)	(4,935)	2,083
Investment income	<u>1,531</u>	<u>829</u>	<u>5,845</u>	<u>(1,239)</u>
Net cash flows provided (used) by investing activities	<u>998</u>	<u>261</u>	<u>910</u>	<u>844</u>
Net increase (decrease) in cash and cash equivalents	568,537	39,071	155,073	(77,993)
Cash and cash equivalents at beginning of year	<u>275,160</u>	<u>236,089</u>	<u>87,177</u>	<u>165,170</u>
Cash and cash equivalents at end of year	<u>\$ 843,697</u>	<u>\$ 275,160</u>	<u>\$ 242,250</u>	<u>\$ 87,177</u>

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating income (loss)	\$ (455,385)	\$ (167,388)	\$ 145,656	\$ 27,159
Adjustments to reconcile operating loss to net cash flows used in operating activities:				
Depreciation and amortization	219,395	325,350	8,507	8,484
Provision for doubtful accounts	169,968	140,835	-	-
Net (increases) decreases in current assets:				
Accounts receivable	(459,113)	41,606	-	-
Property taxes receivable	(3,036)	(6,170)	-	-
Inventories	(806)	(17,323)	-	-
Estimated third-party payor settlements	623,505	(339,881)	-	-
Other current assets	10,680	6,040	-	-
Net increases (decreases) in current liabilities:				
Accounts payable	(81,230)	48,407	-	-
Compensated absences payable	(5,472)	(3,000)	-	-
Salaries and wages payable	17,532	3,428	-	-
Payroll taxes payable	1,684	2,628	-	-
Estimated third-party payor settlements	190,156	-	-	-
Unearned revenue-uncollected current property taxes	<u>3,036</u>	<u>6,170</u>	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 230,914</u>	<u>\$ 40,702</u>	<u>\$ 154,163</u>	<u>\$ 35,643</u>

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Hospital District's financial statements. The financial statements and notes are representations of the Hospital District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization and business activity

The hospital is owned by Hospital District No. 1, Sumner County, Kansas (Hospital District) and is governed by an elected Board of Trustees. The hospital provides acute care, outpatient, swing-bed and home health services.

Discretely presented component unit

The component unit columns in the financial statements consist of the financial data of the Hospital District's component unit, the Caldwell Area Hospital and Health Foundation (Foundation), a tax-exempt nonprofit organization. It is reported in separate columns to emphasize that it is legally separate from the Hospital District. The Foundation is considered a component unit of the Hospital District since the purpose of the Foundation is primarily to secure and expend financial aid for the operations, maintenance, and expansion of the health care facilities and services of the Hospital District.

Accounting standards

The Hospital District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for doubtful accounts

Accounts receivable (Note 8) is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Cash and cash equivalents

Cash and cash equivalents include short-term certificates of deposit, money market, and interest bearing checking accounts, excluding those investments designated by the Board of Trustees for the purchase or replacement of capital assets, with maturities of three months or less (Note 3).

Budgetary principles

The Hospital District is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operations and maintenance and employee benefits funds on or before August 25 of the preceding year. The Hospital District's Board of Trustees 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.

Under the modified accrual basis of accounting revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital Board of Trustees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	Operation and Maintenance Fund	Employee Benefits Fund
GAAP basis net position at December 31, 2012	\$ 2,067,988	\$ —
Adjustments:		
Net property and equipment	(951,459)	—
Net long-term debt	179,856	—
Encumbrances at December 31, 2012	—	—
Budgetary basis fund balance at December 31, 2012	<u>\$ 1,296,385</u>	<u>\$ —</u>

Property taxes receivable

In accordance with governing 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 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 taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as unearned revenue on the balance sheet.

Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

Capital assets

The Hospital District's capital assets that are \$5,000 or greater, are recorded at cost at the date of acquisition. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land improvements	15 years
Buildings and fixed equipment	10-40 years
Movable equipment	5-20 years

Maintenance and repairs are charged to expense and renewals and expenditures for improvements are capitalized.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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 District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy based on current poverty level guidelines. 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. The Hospital provided \$26,273 and \$29,527 of charity care for the years ended December 31, 2012 and 2011, respectively estimated by multiplying the Hospital District's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

Grants and contributions

From time to time, the Hospital District receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net position

Net position of the Hospital District is classified into three components. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable for specific operating activities* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Unrestricted net position* are remaining assets less remaining liabilities that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Operating revenues and expenses

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

Risk management

The Hospital District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three preceding years. The Hospital District also purchases professional liability insurance to cover medical malpractice claims. Management is not aware of any asserted or unasserted claims or incidents arising from services provided to patients.

Compensated absences

All full-time and part-time employees receive up to 31 days paid time off per year depending upon length of service. Upon resignation or retirement from service with the Hospital District, employees are entitled to payment for all accrued paid time off, up to the allowable maximum. The Hospital District fund accrues compensated absence benefits as earned.

Subsequent events

Subsequent events have been evaluated through April 23, 2013, which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Hospital has an agreement with the Medicare program that provides for payments to the Hospital at amounts different from its established rates for care for Medicare beneficiaries.

Inpatient and outpatient services related to Medicare program beneficiaries are paid based primarily on a cost reimbursement methodology. The Hospital District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicare fiscal intermediary. Home health services provided to Medicare beneficiaries are paid based upon prospectively determined rates. The Hospital District's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital District. The Hospital District's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2010.

During 2011, the Hospital District met the requirements for additional incentive payments from the Medicare and Medicaid programs upon the implementation of a qualifying electronic health record system. The Hospital District accrued approximately \$38,000 and \$509,000 to other operating revenue for 2012 and 2011, respectively.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. CASH AND INVESTMENTS

The Hospital District's cash and investments consisted of the following:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents:				
Cash on hand	\$ 300	\$ 300	\$ -	\$ -
Checking accounts	354,725	192,368	-	-
Money market account	87,896	82,492	242,250	87,177
Certificates of deposit	400,776	-	-	-
	<u>\$ 843,697</u>	<u>\$ 275,160</u>	<u>\$ 242,250</u>	<u>\$ 87,177</u>
Board designated assets:				
Money market account	\$ 2,933	\$ 2,925	\$ -	\$ -
Certificates of deposit	105,002	104,477	-	-
	<u>\$ 107,935</u>	<u>\$ 107,402</u>	<u>\$ -</u>	<u>\$ -</u>

3. CASH AND INVESTMENTS (continued)

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Other investments:				
Wichita Community				
Foundation	\$ <u> —</u>	\$ <u> —</u>	\$ <u> 40,672</u>	\$ <u> 35,738</u>

The board-designated assets have been designated by the Board of Trustees to be used for the replacement of capital assets or for the acquisition of additional assets. These assets can be utilized for other purposes at the discretion of the Board of Trustees.

The Foundation's investment with the Wichita Community Foundation, a non-profit organization, are kept in a trust fund. The trust places these funds in various cash and stock items and the withdrawal of principal and investment earnings are subject to the approval of the Wichita Community Foundation's Board of Directors.

Investment return consisted of the following:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 1,531	\$ 829	\$ 1,852	\$ 1,291
Net realized and unrealized gains	<u> —</u>	<u> —</u>	<u> 3,993</u>	<u> (2,530)</u>
	\$ <u> 1,531</u>	\$ <u> 829</u>	\$ <u> 5,845</u>	\$ <u> (1,239)</u>

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital District's deposits may not be returned or the Hospital District will not be able to recover collateral securities in the possession of an outside party. The Hospital District's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities.

At December 31, 2012, the carrying amount of the Hospital District's deposits, which approximates their fair value, was \$951,632 with the bank balances of such accounts being \$1,057,529. Of the bank balances, \$750,000 was secured by federal depository insurance and \$299,291 was covered by collateral held by the Hospital District's custodial banks in joint custody in the name of the Hospital District and its banks, with the remaining balances of \$8,238 being unsecured. The fair value of those pledged securities held by the Hospital District's custodial banks was \$424,560 at December 31, 2012.

3. CASH AND INVESTMENTS (continued)

At December 31, 2012, the carrying amount of the Hospital District's component unit's deposits was \$242,250 with the bank balances of such accounts being \$242,250, all of which was secured by federal depository insurance.

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital's investing activities are managed under the custody of the Hospital Administrator. The Hospital District's component unit's investing activities are under the custody of the component unit's Board of Trustees. Investing is performed in accordance with investment policies adopted by the respective Boards of Trustees and in compliance with State statutes.

Applicable state statutes authorize the Hospital District to invest in (1) temporary notes or no-fund warrants issued by the Hospital District (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Hospital's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

4. RESTRICTED NET ASSETS

Restricted, expendable net assets consist of cash and cash equivalents and are available for the following purposes:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Sidewalk fund	\$ 1,644	\$ 1,640
Intermediate care	6,639	6,621
Ambulance fund	3,432	3,427
Nursing scholarships	2,932	2,924
Other	—	<u>7,161</u>
	<u>\$ 14,647</u>	<u>\$ 21,773</u>

4. RESTRICTED NET ASSETS (continued)

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors was \$17,600 and \$129,954 for the years December 31, 2012 and 2011, respectively.

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended December 31, 2012 and 2011:

	Balance At December 31, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance At December 31, <u>2012</u>	Amounts Due Within <u>One Year</u>
Long-term debt:					
Capital lease obligations	\$ 55,653	\$ 178,236	\$ 54,033	\$ 179,856	\$ 58,696
Other liabilities:					
Compensated absences payable	<u>88,100</u>	<u>129,269</u>	<u>134,741</u>	<u>82,628</u>	<u>62,797</u>
Total noncurrent liabilities	<u>\$ 143,753</u>	<u>\$ 307,505</u>	<u>\$ 188,774</u>	<u>\$ 262,484</u>	<u>\$ 121,493</u>
	Balance At December 31, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance At December 31, <u>2011</u>	Amounts Due Within <u>One Year</u>
Long-term debt:					
Capital lease obligations	\$ 392,020	\$ —	\$ 336,367	\$ 55,653	\$ 33,773
Other liabilities:					
Compensated absences payable	<u>91,100</u>	<u>142,347</u>	<u>145,347</u>	<u>88,100</u>	<u>66,956</u>
Total noncurrent liabilities	<u>\$ 483,120</u>	<u>\$ 142,347</u>	<u>\$ 481,714</u>	<u>\$ 143,753</u>	<u>\$ 100,729</u>

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES
(continued)

Capitalized lease obligations

The Hospital leases certain assets under capital lease agreements including new leases of \$178,236 in 2012. Interest expensed under the capital lease agreements was \$11,676 and \$14,933 for the years ended December 31, 2012 and 2011, respectively. The following is an analysis of the financial presentation of the capital leases:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Fixed equipment	\$ -	\$ 484,055
Movable equipment	272,367	108,080
Less accumulated depreciation	<u>(95,065)</u>	<u>(184,372)</u>
	<u>\$ 177,302</u>	<u>\$ 407,763</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2012:

Year ending December 31,:	
2013	\$ 78,131
2014	60,455
2015	55,011
2016	29,413
2017	<u>2,086</u>
Gross minimum lease payments	225,096
Less amount representing interest	25,680
Less amount for maintenance costs	<u>19,560</u>
Present value of net minimum lease payments	179,856
Less current portion	<u>58,696</u>
Long term portion	<u>\$ 121,160</u>

6. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2012 and 2011 were as follows:

	Balance At December 31, 2011	Additions	Disposals	Balance At December 31, 2012
<u>Hospital</u>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ -	\$ -	\$ 5,085
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>5,085</u>	<u>-</u>	<u>-</u>	<u>5,085</u>
Capital assets being depreciated:				
Land improvements	\$ 60,500	\$ -	\$ -	\$ 60,500
Buildings	909,877	-	-	909,877
Fixed equipment	848,479	5,363	-	853,842
Movable equipment	<u>2,321,845</u>	<u>208,347</u>	<u>13,330</u>	<u>2,516,862</u>
Total capital assets being depreciated	<u>4,140,701</u>	<u>213,710</u>	<u>13,330</u>	<u>4,341,081</u>
Less accumulated depreciation for:				
Land improvements	31,045	3,858	-	34,903
Buildings	771,114	26,103	-	797,217
Fixed equipment	377,192	34,404	-	411,596
Movable equipment	<u>2,006,793</u>	<u>155,030</u>	<u>10,832</u>	<u>2,150,991</u>
Total accumulated depreciation	<u>3,186,144</u>	<u>219,395</u>	<u>10,832</u>	<u>3,394,707</u>

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2011	Additions	Disposals	Balance At December 31, 2012
Total capital assets being depreciated, net	954,557	(5,685)	2,498	946,374
Total capital assets, net	<u>\$ 959,642</u>	<u>\$ (5,685)</u>	<u>\$ 2,498</u>	<u>\$ 951,459</u>
	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
<u>Hospital</u>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ -	\$ -	\$ 5,085
Construction in progress	17,629	-	17,629	-
Total capital assets not being depreciated	22,714	-	17,629	5,085
Capital assets being depreciated:				
Land				
improvements	\$ 60,500	\$ -	\$ -	\$ 60,500
Buildings	909,877	-	-	909,877
Fixed equipment	848,479	-	-	848,479
Movable equipment	2,221,040	232,469	131,664	2,321,845
Total capital assets being depreciated	4,039,896	232,469	131,664	4,140,701

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
Less accumulated depreciation for:				
Land				
improvements	27,186	3,859	-	31,045
Buildings	744,947	26,167	-	771,114
Fixed equipment	342,958	34,234	-	377,192
Movable equipment	<u>1,859,958</u>	<u>261,090</u>	<u>114,255</u>	<u>2,006,793</u>
Total accumulated depreciation	<u>2,975,049</u>	<u>325,350</u>	<u>114,255</u>	<u>3,186,144</u>
Total capital assets being depreciated, net	<u>1,064,847</u>	<u>(92,881)</u>	<u>17,409</u>	<u>954,557</u>
Total capital assets, net	<u>\$ 1,087,561</u>	<u>\$ (92,881)</u>	<u>\$ 35,038</u>	<u>\$ 959,642</u>
	Balance At December 31, 2011	Additions	Disposals	Balance At December 31, 2012
<u>Component unit</u>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Capital assets being depreciated:				
Land				
improvements	3,405	-	-	3,405
Buildings	<u>157,833</u>	<u>-</u>	<u>-</u>	<u>157,833</u>

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2011	Additions	Disposals	Balance At December 31, 2012
Total capital assets being depreciated	161,238	—	—	161,238
Less accumulated depreciation for:				
Land				
improvements	1,652	227	—	1,879
Buildings	61,043	8,279	—	69,322
Total accumulated depreciation	62,695	8,506	—	71,201
Total capital assets being depreciated, net	98,543	(8,506)	—	90,037
Total capital assets, net	\$ 103,543	\$ (8,506)	\$ —	\$ 95,037
	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
<u>Component unit</u>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ —	\$ —	\$ 5,000
Construction in progress	—	—	—	—
Total capital assets not being depreciated	5,000	—	—	5,000

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
Capital assets being depreciated:				
Land				
improvements	3,405	-	-	3,405
Buildings	<u>157,833</u>	<u>-</u>	<u>-</u>	<u>157,833</u>
Total capital assets being depreciated	<u>161,238</u>	<u>-</u>	<u>-</u>	<u>161,238</u>
Less accumulated depreciation for:				
Land				
improvements	1,425	227	-	1,652
Buildings	<u>52,786</u>	<u>8,257</u>	<u>-</u>	<u>61,043</u>
Total accumulated depreciation	<u>54,211</u>	<u>8,484</u>	<u>-</u>	<u>62,695</u>
Total capital assets being depreciated, net	<u>107,027</u>	<u>(8,484)</u>	<u>-</u>	<u>98,543</u>
Total capital assets, net	<u>\$ 112,027</u>	<u>\$ (8,484)</u>	<u>\$ -</u>	<u>\$ 103,543</u>

7. PENSION PLAN

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERs provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869.

7. PENSION PLAN (continued)

Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for participants employed prior to July 1, 2009 and at 6% for new participants employed July 1, 2009 and thereafter. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate, established by statute, were as follows:

Period from January 1, 2012 to December 31, 2012	8.34%
Period from January 1, 2011 to December 31, 2011	7.74%

The Hospital's contributions to KPERS for the years ending December 31, 2012, 2011 and 2010 were \$117,329, \$108,323 and \$99,296, respectively, equal to the statutory required contributions for each year.

8. CONCENTRATIONS OF CREDIT RISK

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

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Medicare	\$ 427,722	\$ 142,338
Medicaid	19,745	18,286
Commercial	136,194	98,435
Other	<u>174,057</u>	<u>202,082</u>
Gross accounts receivable	757,718	461,141
Less allowance for doubtful accounts	<u>108,678</u>	<u>101,246</u>
	<u>\$ 649,040</u>	<u>\$ 359,895</u>

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the Hospital District in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Board designated assets – These assets consist of cash and short-term investments and the carrying amounts reported in the balance sheet approximates their fair value.

Other investments – The fair values of investments are based on quoted market prices.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates its fair value.

Long-term debt – These liabilities consist of capitalized lease obligations. The fair value of these liabilities is estimated using discounted cash flow analyses, based on the interest rate implicit in the lease agreements.

The carrying amounts and fair value of the Hospital District's financial instruments at December 31, 2012 and 2011 are as follows:

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Primary government:				
Cash and cash equivalents	\$ 843,697	\$ 843,697	\$ 275,160	\$ 275,160
Accounts and other receivables	649,040	649,040	983,400	983,400
Board designated assets	107,935	107,935	107,402	107,402
Accounts and other payables	394,023	394,023	265,881	265,881
Long-term debt	179,856	179,856	55,653	55,653
Component unit:				
Cash and cash equivalents	242,250	242,250	87,177	87,177
Other investments	40,672	40,672	35,738	35,738

10. BUILDING LEASE AGREEMENTS

In January 2005, the Hospital District entered into an agreement to lease space in the building owned by the District's component unit. The lease term is for one year with an option to extend the lease for ten separate and successive periods of one year each. The annual rent is \$30,000, payable in twelve equal monthly installments of \$2,500 in advance on the first day of each month. The space is being used for administrative offices, home health, and laundry services.

During 2005, the component unit entered into an agreement with a not-for-profit organization to provide space for a local physician's office. The lease term is for five years with an option to renew for an additional five year term. The annual rent is \$15,600 commencing with the second year of the lease and is payable in installments of \$1,300 per month.

11. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital District is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital District would be subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. The Hospital District provides no other post-employment benefits, other than a retirement plan, for former employees.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital District makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage.

12. COMPLIANCE WITH KANSAS LAW

Kansas statutes require deposits of a governmental entity, in excess of Federal Depository Insurance Corporation (FDIC) insurance amounts in any one financial institution, to be secured by qualified securities, the market value of which equals or exceeds deposits in excess of FDIC insurance limits. The deposits at one of the Hospital District's depository banks were under-secured at December 31, 2012 by \$8,238 (Note 3).

ADDITIONAL INFORMATION

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

OPERATION AND MAINTENANCE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Net patient service revenue	\$ 3,486,206	\$ 3,486,206	\$ 3,898,633	\$ 412,427
Taxes	243,717	243,717	270,204	26,487
Other	<u>105,700</u>	<u>105,700</u>	<u>134,535</u>	<u>28,835</u>
Total revenues	<u>3,835,623</u>	<u>3,835,623</u>	<u>4,303,372</u>	<u>467,749</u>
Expenditures:				
Salaries	1,909,640	1,909,640	1,789,094	120,546
Employee benefits	378,995	378,995	481,908	(102,913)
Supplies and contractual services	1,688,003	1,688,003	1,843,195	(155,192)
Capital outlay	282,392	282,392	87,009	195,383
Transfers to Employee Benefits Fund	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>50,000</u>
Total expenditures	<u>4,309,030</u>	<u>4,309,030</u>	<u>4,201,206</u>	<u>107,824</u>
Excess of revenue over expenditures (expenditures over revenue)	(473,407)	(473,407)	102,166	575,573
Fund balance, beginning of year	<u>576,157</u>	<u>576,157</u>	<u>1,194,219</u>	<u>618,062</u>
Fund balance, end of year	<u>\$ 102,750</u>	<u>\$ 102,750</u>	<u>\$ 1,296,385</u>	<u>\$ 1,193,635</u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

EMPLOYEE BENEFITS FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 105,000	\$ 105,000	\$ 103,597	\$ 1,403
Transfers from operations and maintenance fund	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>(50,000)</u>
Total revenues	155,000	155,000	103,597	(51,403)
Expenditures – Employee benefits	<u>155,000</u>	<u>155,000</u>	<u>103,597</u>	<u>51,403</u>
Excess of revenue over expenditures (expenditures over revenue)	—	—	—	—
Fund balance, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance, end of year	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2012			2011		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nursing service	\$ 728,453	\$ 1,941	\$ 730,394	\$ 577,880	\$ 18,567	\$ 596,447
Operating room	1,073	139,406	140,479	2,262	128,265	130,527
Anesthesiology	1,678	62,342	64,020	1,392	37,696	39,088
Radiology	71,453	307,290	378,743	52,809	257,936	310,745
CAT scan	50,291	228,742	279,033	53,414	183,481	236,895
MRI	16,977	102,805	119,782	9,488	105,559	115,047
Laboratory	119,531	508,499	628,030	109,758	480,647	590,405
Physical therapy	46,361	100,817	147,178	54,081	87,694	141,775
Electrocardiology	5,929	43,966	49,895	6,394	36,361	42,755
Medical supplies	52,187	43,006	95,193	45,190	60,955	106,145
Pharmacy	326,511	302,146	628,657	204,349	314,781	519,130
Emergency room	4,517	392,670	397,187	5,443	357,354	362,797
Ambulance	469	91,516	91,985	-	82,393	82,393
Home health	-	43,500	43,500	-	57,500	57,500
	<u>\$ 1,425,430</u>	<u>\$ 2,368,646</u>	3,794,076	<u>\$ 1,122,460</u>	<u>\$ 2,209,189</u>	3,331,649
Contractual adjustments			297,923			393,193
Charity care			(23,398)			(23,034)
Bad debts			(169,968)			(140,835)
			<u>\$ 3,898,633</u>			<u>\$ 3,560,973</u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

	Year ended December 31, 2012				Percent of total operating expenses
	Salaries	Supplies and other	Depreciation	Total	
Routine service:					
Nursing service	\$ 623,365	\$ 22,477	\$ 82,397	\$ 728,239	16.43 %
Ancillary services:					
Operating room	1,943	11,665	4,785	18,393	0.42
Anesthesiology	—	23,729	—	23,729	0.54
Radiology	93,755	39,180	36,682	169,617	3.83
CAT scan	3,378	93,500	179	97,057	2.19
MRI	1,545	32,160	268	33,973	0.77
Laboratory	142,539	229,505	26,125	398,169	9.00
Physical therapy	79,616	2,218	472	82,306	1.86
Electrocardiology	376	23,795	—	24,171	0.55
Medical supplies	32,458	50,356	—	82,814	1.87
Pharmacy	6,468	193,804	—	200,272	4.53
Emergency room	272,934	14,521	—	287,455	6.50
Ambulance	21,729	55,055	649	77,433	1.75
Home health	45,956	16,904	—	62,860	1.42
	<u>702,697</u>	<u>786,392</u>	<u>69,160</u>	<u>1,558,249</u>	<u>35.23</u>
General services:					
Nursing administration	73,780	—	—	73,780	1.67
Dietary	95,384	50,106	466	145,956	3.30
Operation of plant	991	266,713	—	267,704	6.05
Housekeeping	21,809	5,178	—	26,987	0.61
Laundry	8,091	4,675	1,187	13,953	0.32
Medical records	25,870	17,869	—	43,739	0.99
Administration	237,107	678,109	1,820	917,036	20.72
Employee benefits	—	585,505	—	585,505	13.23
Depreciation - building and fixed equipment	—	—	64,365	64,365	1.45
	<u>463,032</u>	<u>1,608,155</u>	<u>67,838</u>	<u>2,139,025</u>	<u>48.34</u>
	<u>\$ 1,789,094</u>	<u>\$ 2,417,024</u>	<u>\$ 219,395</u>	<u>\$ 4,425,513</u>	<u>100.00 %</u>

Year ended December 31, 2011

	<u>Salaries</u>	<u>Supplies and other</u>	<u>Depreciation</u>	<u>Total</u>	<u>Percent of total operating expenses</u>
Routine service:					
Nursing service	\$ 640,163	\$ 38,938	\$ 160,795	\$ 839,896	22.47 %
Ancillary services:					
Operating room	12,664	7,656	8,337	28,657	0.65
Anesthesiology	-	21,611	-	21,611	0.49
Radiology	82,584	49,166	31,722	163,472	3.69
CAT scan	3,341	103,309	179	106,829	2.41
MRI	177	61,069	267	61,513	1.39
Laboratory	141,765	191,738	10,979	344,482	7.78
Physical therapy	79,003	922	-	79,925	1.81
Electrocardiology	682	10,151	-	10,833	0.24
Medical supplies	31,414	33,958	-	65,372	1.48
Pharmacy	6,049	151,499	-	157,548	3.56
Emergency room	263,795	15,681	-	279,476	6.32
Ambulance	32,298	29,032	814	62,144	1.40
Home health	41,693	14,227	-	55,920	1.26
	<u>695,465</u>	<u>690,019</u>	<u>52,298</u>	<u>1,437,782</u>	<u>32.48</u>
General services:					
Nursing administration	61,328	-	-	61,328	1.39
Dietary	87,946	41,781	478	130,205	2.94
Operation of plant	9,590	277,318	2,007	288,915	6.53
Housekeeping	22,080	5,119	50	27,249	0.62
Laundry	9,590	3,394	1,183	14,167	0.32
Medical records	24,297	19,334	-	43,631	0.99
Administration	242,814	536,525	44,279	823,618	18.61
Employee benefits	-	539,738	-	539,738	12.20
Depreciation - building and fixed equipment	-	-	64,260	64,260	1.45
	<u>457,645</u>	<u>1,423,209</u>	<u>112,257</u>	<u>1,993,111</u>	<u>45.05</u>
	<u>\$ 1,793,273</u>	<u>\$ 2,152,166</u>	<u>\$ 325,350</u>	<u>\$ 4,270,789</u>	<u>100.00 %</u>