

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2012 and 2011



St. Luke’s Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Healthcare Authority of the City of Wellington, Kansas
Governing Body for St. Luke's Hospital d/b/a Sumner Regional Medical Center
Wellington, Kansas

We have audited the accompanying financial statements of St. Luke's Hospital d/b/a Sumner Regional Medical Center, a component unit of the City of Wellington, Kansas, and its discretely presented component unit as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

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 14, 2014

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Balance Sheets

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 224,943	\$ 809,443
Short-term certificates of deposit	713,945	1,058,812
Restricted cash - current	66,667	62,083
Patient accounts receivable, net of allowance; 2012 - \$1,165,000, 2011 - \$1,024,000	2,406,836	2,414,892
Sales tax receivable	74,730	22,000
Supplies	145,189	289,317
Prepaid expenses and other	<u>376,894</u>	<u>257,012</u>
Total current assets	<u>4,009,204</u>	<u>4,913,559</u>
Noncurrent Cash and Cash Equivalents		
Restricted by donors for capital acquisitions	<u>76,148</u>	<u>70,823</u>
Capital Assets, Net	<u>4,917,190</u>	<u>5,400,809</u>
Total assets	<u><u>\$ 9,002,542</u></u>	<u><u>\$ 10,385,191</u></u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 646,643	\$ 607,894
Accounts payable	773,618	703,750
Accrued expenses	658,013	681,725
Deferred revenue	-	71,250
Estimated amounts due to third-party payers	<u>104,000</u>	<u>230,000</u>
Total current liabilities	2,182,274	2,294,619
Long-term Debt	<u>2,506,434</u>	<u>3,092,455</u>
Total liabilities	<u>4,688,708</u>	<u>5,387,074</u>
Net Position		
Net investment in capital assets	1,764,113	1,700,460
Restricted - expendable for capital acquisitions	76,148	70,818
Restricted - expendable for debt service	66,667	74,602
Unrestricted	<u>2,406,911</u>	<u>3,152,237</u>
Total net position	<u>4,313,839</u>	<u>4,998,117</u>
Total liabilities and net position	<u><u>\$ 9,002,547</u></u>	<u><u>\$ 10,385,191</u></u>

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Sumner Regional Medical Center Endowment Foundation
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Cash	\$ 314,651	\$ 351,672
Short-term certificates of deposit	30,459	30,194
Mutual funds	155,930	136,274
Total assets	\$ 501,040	\$ 518,140
 Unrestricted Net Assets	 \$ 501,040	 \$ 518,140

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provisions for uncollectible accounts; 2012 - \$1,172,000, 2011 - \$646,000	\$ 11,746,179	\$ 12,735,869
Electronic health records incentive	1,937,434	-
Other	275,647	252,990
Total operating revenues	13,959,260	12,988,859
Operating Expenses		
Salaries and wages	6,117,309	5,515,943
Employee benefits	1,594,676	1,553,798
Purchased services and professional fees	2,527,734	2,470,240
Supplies and other	4,193,938	3,717,469
Depreciation	1,032,065	629,819
Total operating expenses	15,465,722	13,887,269
Operating Loss	(1,506,462)	(898,410)
Nonoperating Revenues (Expenses)		
Non-capital appropriations - City of Wellington utilities abatement	202,810	159,604
Non-capital appropriations - City of Wellington sales taxes	653,475	283,050
Interest income	10,278	15,827
Interest expense	(98,890)	(84,073)
Noncapital grants and gifts	42,696	54,358
Total nonoperating revenues	810,369	428,766
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(696,093)	(469,644)
Capital Grants and Gifts	11,815	9,484
Decrease in Net Position	(684,278)	(460,160)
Net Position, Beginning of Year	4,998,117	5,458,277
Net Position, End of Year	\$ 4,313,839	\$ 4,998,117

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Sumner Regional Medical Center Endowment Foundation
Statements of Activities
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted Revenues, Gains and Other Support		
Contributions	\$ 30,062	\$ 127,077
Fund raising income	5,615	24,449
Unrealized gain on investments	14,430	-
Interest and dividends income	6,320	1,075
Other	318	-
	<u>56,745</u>	<u>152,601</u>
Unrestricted Expenses		
Residential living expense	27,591	20,002
Miscellaneous expense	19,533	14,382
Physician recruitment expense	16,000	-
Salary expense	5,977	-
Fund raising expense	4,744	7,527
Support to Sumner Regional Medical Center	-	2,140
	<u>73,845</u>	<u>44,051</u>
Change in Unrestricted Net Assets	(17,100)	108,550
Unrestricted Net Assets, Beginning of Year	<u>518,140</u>	<u>409,590</u>
Unrestricted Net Assets, End of Year	<u>\$ 501,040</u>	<u>\$ 518,140</u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 11,556,985	\$ 12,724,953
Payments to suppliers	(6,464,116)	(5,927,755)
Payments to and on behalf of employees	(7,735,697)	(7,004,830)
Other receipts, net	<u>2,213,081</u>	<u>252,990</u>
Net cash provided by (used in) operating activities	<u>(429,747)</u>	<u>45,358</u>
Noncapital Financing Activities		
Noncapital appropriations - City of Wellington - sales taxes	600,745	283,050
Noncapital grants and gifts	<u>42,696</u>	<u>54,358</u>
Net cash provided by noncapital financing activities	<u>643,441</u>	<u>337,408</u>
Capital and Related Financing Activities		
Capital grants and gifts	11,815	9,484
Principal paid on long-term debt	(655,307)	(434,951)
Interest paid on long-term debt	(98,890)	(84,073)
Purchase of capital assets	<u>(401,043)</u>	<u>(147,506)</u>
Net cash used in capital and related financing activities	<u>(1,143,425)</u>	<u>(657,046)</u>
Investing Activities		
Interest income	10,278	15,827
Purchase of certificates of deposit	-	(252,115)
Proceeds from maturities of certificates of deposit	344,867	238,691
Net change in construction escrow and debt-related accounts	<u>-</u>	<u>14,221</u>
Net cash provided by investing activities	<u>355,145</u>	<u>16,624</u>
Decrease in Cash and Cash Equivalents	(574,586)	(257,656)
Cash and Cash Equivalents, Beginning of Year	<u>942,349</u>	<u>1,200,005</u>
Cash and Cash Equivalents, End of Year	<u>\$ 367,763</u>	<u>\$ 942,349</u>

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 291,610	\$ 871,526
Cash and cash equivalents in noncurrent cash	76,148	70,823
Total cash	\$ 367,758	\$ 942,349
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,506,462)	\$ (898,410)
Depreciation	1,032,065	629,819
Abatement of utilities by City	202,810	159,604
Changes in operating assets and liabilities		
Patient accounts receivable, net	8,056	(256,704)
Estimated amounts due from and to third-party payers	(126,000)	261,000
Accounts payable and accrued expenses	(64,462)	218,959
Supplies and prepaid expenses	24,246	(68,910)
Net cash provided by (used in) operating activities	\$ (429,747)	\$ 45,358
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 108,035	\$ 1,772,700
Fixed assets in accounts payable	\$ 39,368	\$ -

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

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

Nature of Operations and Reporting Entity

St. Luke's Hospital d/b/a Sumner Regional Medical Center (the Hospital) is operated under the Healthcare Authority of the City of Wellington, Kansas (Authority). On June 7, 1994, the Governing Body of the City of Wellington, Kansas created the Authority to operate, control and manage all matters concerning the Hospital. The Governing Body of the City of Wellington, Kansas appoints members to the Board of Directors of the Authority. Under accounting principles generally accepted in the United States of America, the Authority and Hospital constitute a discretely presented component unit of the City of Wellington, Kansas (the City), for financial reporting purposes. The Hospital primarily earns revenues by providing inpatient, outpatient, skilled nursing and geriatric psychology services for the benefit of the community.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (primarily federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as noncapital appropriations, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

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

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted of money market accounts.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Noncapital Appropriations – City of Wellington – Sales Taxes and Utilities Abatement

The Hospital received approximately 4% and 2% in 2012 and 2011, respectively, of its financial support from the proceeds of sales taxes levied for health care integration by the City and shared with the Hospital for hospital purposes. These funds were entirely used to support operations of the Hospital. In 2010, the City agreed to abate the utilities costs due to the City from approximately July 1, 2010 through December 31, 2010. The City continued to abate the utilities through June 30, 2011. Effective July 1, 2011, the Hospital resumed payments to the City for utilities through December 31, 2011. Effective January 1, 2012 through June 30, 2012, the City provided an additional utilities abatement period for the Hospital.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; 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.

Patient Accounts Receivable

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

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2012 and 2011

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 20 years
Buildings	5 – 40 years
Equipment and major moveable equipment	3 – 10 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Net Patient Service Revenue

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

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

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

Foundation

Sumner Regional Medical Center Endowment Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

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

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Electronic Health Records Incentive Program

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

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

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of \$1,937,434, which is included in operating revenues in the statement of revenues, expenses and changes in net position.

Subsequent Events

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

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient's acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology.

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, Kansas

Notes to Financial Statements

December 31, 2012 and 2011

Approximately 56% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

The 2012 and 2011 net patient service revenue decreased approximately \$114,000 and \$118,000, respectively, due to final settlements in excess of amounts previously estimated.

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 the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

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

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2012 and 2011

Note 3: Deposits

Deposits

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

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

At December 31, 2012 and 2011, none of the Hospital's bank balances of \$1,120,508 and \$2,130,923 were exposed to custodial credit risk.

Summary of Carrying Values

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

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	<u>\$ 1,081,703</u>	<u>\$ 2,001,161</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 224,943	\$ 809,443
Short-term certificates of deposit	713,945	1,058,812
Restricted cash - current	66,667	62,083
Noncurrent cash and cash equivalents	<u>76,148</u>	<u>70,823</u>
	<u><u>\$ 1,081,703</u></u>	<u><u>\$ 2,001,161</u></u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2012 and 2011

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 1,236,386	\$ 967,142
Medicaid	83,945	152,397
Other third-party payers	1,241,260	1,049,267
Patients	<u>1,010,284</u>	<u>1,270,086</u>
	3,571,875	3,438,892
Less allowance for uncollectible accounts	<u>1,165,039</u>	<u>1,024,000</u>
	<u>\$ 2,406,836</u>	<u>\$ 2,414,892</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	<u>2012</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 115,142	\$ -	\$ -	\$ 115,142
Land improvements	314,007	-	-	314,007
Buildings	6,733,287	-	-	6,733,287
Equipment	2,580,334	-	-	2,580,334
Major moveable equipment	5,747,934	248,678	1,928,720	7,925,332
Construction in progress	<u>1,638,386</u>	<u>299,768</u>	<u>(1,928,720)</u>	<u>9,434</u>
	<u>17,129,090</u>	<u>548,446</u>	<u>-</u>	<u>17,677,536</u>
Less accumulated depreciation				
Land improvements	308,854	2,331	-	311,185
Buildings	5,540,081	72,971	-	5,613,052
Equipment	1,216,368	167,057	-	1,383,425
Major moveable equipment	<u>4,662,978</u>	<u>789,706</u>	<u>-</u>	<u>5,452,684</u>
	<u>11,728,281</u>	<u>1,032,065</u>	<u>-</u>	<u>12,760,346</u>
Capital Assets, Net	<u>\$ 5,400,809</u>	<u>\$ (483,619)</u>	<u>\$ -</u>	<u>\$ 4,917,190</u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2012 and 2011

	2011			Ending Balance
	Beginning Balance	Additions	Transfers	
Land	\$ 115,142	\$ -	\$ -	\$ 115,142
Land improvements	314,007	-	-	314,007
Buildings	6,667,583	17,120	48,584	6,733,287
Equipment	2,580,334	-	-	2,580,334
Major moveable equipment	5,519,946	227,988	-	5,747,934
Construction in progress	11,872	1,675,098	(48,584)	1,638,386
	<u>15,208,884</u>	<u>1,920,206</u>	<u>-</u>	<u>17,129,090</u>
Less accumulated depreciation				
Land improvements	305,143	3,711	-	308,854
Buildings	5,405,161	134,920	-	5,540,081
Equipment	1,042,344	174,024	-	1,216,368
Major moveable equipment	4,345,814	317,164	-	4,662,978
	<u>11,098,462</u>	<u>629,819</u>	<u>-</u>	<u>11,728,281</u>
Capital Assets, Net	<u>\$ 4,110,422</u>	<u>\$ 1,290,387</u>	<u>\$ -</u>	<u>\$ 5,400,809</u>

Note 6: Medical Malpractice Claims

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

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

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December 31, 2012 and 2011

Note 7: Line of Credit

The Hospital has two revolving bank line of credits expiring December 31, 2012, in the amount of \$500,000 and \$200,000. These lines are collateralized by substantially all of the Hospital's assets. Interest for both the lines of credit are at a fixed rate of 3.25%. As of December 31, 2012, the Hospital has not withdrawn any funds against this line of credit.

Effective February 5, 2013, the Hospital opened a new revolving bank line of credit expiring December 31, 2013, in the amount of \$700,000. This line is collateralized by substantially all of the Hospital's assets. The line of credit has been renewed with an expiration date of May 1, 2014. As of the date of the Independent Auditor's Report, the full amount has been withdrawn. Effective October 11, 2013, the Hospital opened a second revolving bank line of credit in the amount of \$200,000, of which the full amount has been withdrawn on.

Note 8: Long-term Debt

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

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public building commission bonds payable - 2007	\$ 640,000	\$ -	\$ 95,000	\$ 545,000	\$ 100,000
Public building commission bonds payable - 2010	1,110,000	-	65,000	1,045,000	70,000
Capital lease obligations	1,950,349	108,035	495,307	1,563,077	476,643
	<u>\$ 3,700,349</u>	<u>\$ 108,035</u>	<u>\$ 655,307</u>	<u>\$ 3,153,077</u>	<u>\$ 646,643</u>
	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public building commission bonds payable - 2007	\$ 730,000	\$ -	\$ 90,000	\$ 640,000	\$ 95,000
Public building commission bonds payable - 2010	1,175,000	-	65,000	1,110,000	65,000
Capital lease obligations	457,600	1,772,700	279,951	1,950,349	447,894
	<u>\$ 2,362,600</u>	<u>\$ 1,772,700</u>	<u>\$ 434,951</u>	<u>\$ 3,700,349</u>	<u>\$ 607,894</u>

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Building Commission Bonds Payable – 2007

The Public Building Commission bonds payable consist of City of Wellington, Kansas Public Building Commission Revenue Bonds Series 2007 in the original amount of \$985,000 dated December 15, 2007, which bear interest at 3.45% to 3.65%. The bonds are payable in annual installments beginning December 1, 2009 through December 1, 2017. Semiannual interest only payments are due beginning June 1, 2008 through June 1, 2017. The Hospital is required to make monthly deposits to the debt service account of approximately \$9,500. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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

	Total to be Paid	Principal	Interest
Year Ending December 31,			
2013	\$ 119,525	\$ 100,000	\$ 19,525
2014	121,025	105,000	16,025
2015	122,297	110,000	12,297
2016	123,337	115,000	8,337
2017	119,197	115,000	4,197
	<u>\$ 605,381</u>	<u>\$ 545,000</u>	<u>\$ 60,381</u>

Building Commission Bonds Payable – 2010

The Public Building Commission bonds payable consist of City of Wellington, Kansas Public Building Commission Revenue Bonds Series 2010 in the original amount of \$1,075,000 dated March 1, 2010, which bear interest at 1.35% to 4.00%. The bonds are payable in annual installments beginning March 1, 2011 through March 1, 2025. Semiannual interest only payments are due beginning September 1, 2010 through September 1, 2024. The Hospital is required to make monthly deposits to the debt service account of approximately \$8,100. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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Notes to Financial Statements

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 101,513	\$ 70,000	\$ 31,513
2014	100,427	70,000	30,427
2015	99,098	70,000	29,098
2016	97,540	70,000	27,540
2017	100,688	75,000	25,688
2018 - 2022	574,533	495,000	79,533
2023 - 2025	225,154	195,000	30,154
	<u>\$ 1,298,953</u>	<u>\$ 1,045,000</u>	<u>\$ 253,953</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The cost of assets under capital leases at December 31, 2012 and 2011, totaled \$758,830 and \$650,700, respectively, with accumulated depreciation of \$351,403 and \$189,615, respectively. The capital leases are secured by the Hospital's short-term certificates of deposit. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 0% to 6.22%, together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 505,007
2014	495,281
2015	424,881
2016	195,654
2017	2,316
Total minimum lease payments	<u>1,623,139</u>
Less amounts representing interest	<u>60,062</u>
Present value of future minimum lease payments	<u>\$ 1,563,077</u>

Effective May 2013, the Hospital has entered into an additional lease for equipment that is accounted for as a capital lease in the amount of approximately \$220,000. Effective July 1, 2013, the Hospital has entered into an additional lease for equipment that is accounted for as a capital lease in the amount of \$550,000. Effective April 1, 2013, the Hospital has entered into an additional lease for equipment that is accounted for as a capital lease in the amount of \$108,000.

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Notes to Financial Statements

December 31, 2012 and 2011

Note 9: Restricted and Designated Net Position

At December 31, restricted expendable net position was available for the following purposes:

	<u>2012</u>	<u>2011</u>
Debt service	\$ 66,667	\$ 74,602
Capital acquisitions	<u>76,148</u>	<u>70,823</u>
Total restricted expendable net assets	<u>\$ 142,815</u>	<u>\$ 145,425</u>

Note 10: Operating Leases

The Hospital has entered into various operating leases for equipment with terms ranging from one to five years. The leases require the Hospital to pay certain executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2012, were:

2013	\$ 282,274
2014	124,858
2015	117,106
2016	<u>43,271</u>
	<u>\$ 567,509</u>

Rent expense for all operating leases was \$515,837 and \$513,326 for the years ended December 31, 2012 and 2011, respectively.

Note 11: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Directors. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

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Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 8.34%, 7.74% and 7.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$462,680, \$377,796 and \$383,708, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 12: Contingencies

Litigation

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

Note 13: Sumner Regional Medical Center Endowment Foundation

Financial Statements

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