

Geary Community Hospital
A Component Unit of Geary County, Kansas
Auditor's Report and Financial Statements
April 30, 2014 and 2013

Geary Community Hospital
A Component Unit of Geary County, Kansas
April 30, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Geary Community Hospital
Junction City, Kansas

We have audited the accompanying financial statements of Geary Community Hospital (Hospital) as of and for the years ended April 30, 2014 and 2013, and its discretely presented component unit (Geary Community Healthcare Foundation) as of and for the years ended December 31, 2013 and 2012, collectively a component unit of Geary County, Kansas, and the related notes to the 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 did not audit the financial statements of Geary Community Healthcare Foundation (Foundation), a discretely presented component unit of the Hospital, which statements reflect total assets of \$5,077,300 and \$4,935,457 as of December 31, 2013 and 2012, respectively, and total revenues of \$1,018,143 and \$787,889 for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as they related to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Geary Community Hospital and its discretely presented component unit as of April 30, 2014 and 2013 and December 31, 2013 and 2012, respectively, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Hospital implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs through retroactive application to prior year's financial statements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

BKD, LLP

Wichita, Kansas
August 18, 2014

Geary Community Hospital
A Component Unit of Geary County, Kansas
Management's Discussion and Analysis
Years Ended April 30, 2014 and 2013

Introduction

This management's discussion and analysis of the financial performance of Geary Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended April 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relates solely to the Hospital and does not include the Hospital's component unit, Geary Community Healthcare Foundation (Foundation).

Financial Highlights

- Cash and short-term certificates of deposit increased \$621,554 or 16% in 2014 and \$495,773 or 15% in 2013.
- The Hospital's net position decreased \$1,291,517 or 3% in 2014 and \$547,541 or 1% in 2013.
- The Hospital reported an operating loss of \$1,897,551 and \$966,491 in 2014 and 2013, respectively. The operating loss in 2014 increased by \$931,060 or 96% compared to the operating loss reported in 2013.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. Geary Community Healthcare Foundation, a nonprofit organization established to raise funds for the support of health care services and programs of Geary Community Hospital and the Geary County, Kansas area, is included in the Hospital's financial statements as a component unit using the discrete presentation method.

The Hospital implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective May 1, 2011. This statement changed the method of accounting for bond issuance costs. See more detailed information in *Note 1*.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the changes in the Hospital's net position. The Hospital's total net position (the difference between assets and liabilities) is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions as to where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

Net position is the difference between assets and liabilities reported in the Balance Sheet. As shown in Table 1, the Hospital's net position decreased by \$1,291,517 or 3% in 2014. In 2013, net position decreased by \$547,541 or 1%.

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets		<i>(As Restated)</i>	<i>(As Restated)</i>
Cash	\$ 4,500,950	\$ 3,879,396	\$ 3,383,623
Patient accounts receivable, net	6,351,119	5,798,238	5,620,873
Other current assets	3,162,576	3,141,951	3,545,448
Capital assets, net	45,061,453	45,256,372	47,598,753
Other noncurrent assets	1,493,053	1,633,451	1,753,826
	<u>\$ 60,569,151</u>	<u>\$ 59,709,408</u>	<u>\$ 61,902,523</u>
Liabilities			
Long-term debt, excluding current portion	\$ 6,185,416	\$ 5,388,024	\$ 6,391,095
Other long-term liabilities	-	-	-
Current liabilities	5,103,107	3,749,239	4,391,742
	<u>11,288,523</u>	<u>9,137,263</u>	<u>10,782,837</u>
Net Position			
Net investment in capital assets	38,153,136	39,556,047	40,916,357
Restricted expendable	1,155,389	932,362	898,345
Unrestricted	9,972,103	10,083,736	9,304,984
	<u>49,280,628</u>	<u>50,572,145</u>	<u>51,119,686</u>
Total liabilities and net position	<u>\$ 60,569,151</u>	<u>\$ 59,709,408</u>	<u>\$ 61,902,523</u>

Cash increased during the fiscal year ended April 30, 2014, mostly due to the timing of payments on current liabilities. Net patient accounts receivable increased \$552,881 or 10% on April 30, 2014, as compared to April 30, 2013. The nature of accounts receivables at April 30, 2014, is similar to 2013; however, a larger percentage of the receivable balance is from Medicare, Medicaid and directly from patients. Current liabilities increased from 2013 to 2014 mostly due to the timing payments toward

accounts payable. Long-term liabilities increased \$797,392 or 15% because of the new lease agreements entered into with local banks and related to the acquisition of a magnetic resonance imaging (MRI) machine, an X-ray machine and endoscopy equipment.

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

Operating Results and Changes in the Hospital's Net Position

Table 2 shows the different components that make up the \$1,291,517 decrease in net position for 2014. Also shown are the components that make up the \$547,541 decrease in net position for 2013.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues		<i>(As Restated)</i>	<i>(As Restated)</i>
Net patient service revenue	\$ 41,216,558	\$ 41,017,517	\$ 41,314,647
Electronic Health Records Incentive Revenue	988,241	1,079,028	374,193
Other operating revenues	833,166	782,150	766,552
Total operating revenues	43,037,965	42,878,695	42,455,392
Operating Expenses			
Salaries and employee benefits	25,465,662	24,614,768	24,292,890
Purchased services and professional fees	5,089,436	4,732,866	4,872,758
Depreciation and amortization	3,089,098	3,117,928	3,153,581
Other operating expenses	11,291,320	11,379,624	11,333,987
Total operating expenses	44,935,516	43,845,186	43,653,216
Operating Loss	(1,897,551)	(966,491)	(1,197,824)
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	238,156	254,927	183,247
Investment income	219,241	235,531	215,708
Interest expense	(246,672)	(264,773)	(302,731)
Noncapital grants and gifts	28,011	18,914	35,759
Total nonoperating revenues (expenses)	238,736	244,599	131,983
Capital Grants and Gifts	367,298	174,351	178,452
Change in Net Position	\$ (1,291,517)	\$ (547,541)	\$ (887,389)

Operating Loss

The change in the Hospital's net position is significantly affected by its operating income or loss. Generally, this is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital has reported an operating loss of \$1,891,561 and \$966,491 in 2014 and 2013, respectively. The operating loss for 2014 is an increase of \$931,060 or 96% from the operating loss for 2013.

The primary components of the increased operating loss in 2014 are:

- An increase in net patient service revenue of \$199,041 or 0.5%.

Overall inpatient volumes and revenues were down in 2014. The number of patient days in the inpatient units decreased 14% from 2013. The decrease in inpatient revenue was offset by increases in the outpatient and clinic areas. Some of the biggest increases in outpatient revenue were in the radiology department, partially due to the acquisition of a computerized tomography (CT) scanner and an MRI machine which were both acquired in 2014. Emergency room revenue also increased in 2014, mostly due to our change in contracting with a coding company who utilizes a different methodology for coding emergency room cases.

- An increase in salary and employee benefits of \$850,894 or 3.5%.

This expense increased mostly due to increased wages associated with hospital-owned physician clinics and a walk-in clinic. The largest portion of this increase is associated with increasing the number of clinics, physicians and mid-level providers to serve the community.

- An increase in purchased services and professional fees of \$356,570 or 7.5%.

This expense increased mostly due to costs associated with the collection of patient accounts receivables and expenses for temporary staffing in the Laboratory. In fiscal year 2014, we took steps to improve the process of billing patients for their portion of clinic services, which included contracting with an accounts receivable management service to handle billing follow-up. In the Laboratory, we had difficulty in finding permanent replacements for staff that left the organization. In the interim, we contracted with a company to provide temporary staff in those positions.

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

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

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

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

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

- An increase in salary and employee benefits of \$321,878 or 1.3%.

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

Nonoperating Revenues and Expenses

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

Capital Grants and Gifts

The Hospital received gifts of \$367,298 from various individuals to purchase capital assets in 2014, compared to \$174,351 in 2013. Capital Grants and Gifts are mostly gifts from the Geary Community Healthcare Foundation which are tied to specific construction projects or to equipment purchases. In 2014, the Foundation funded a significant portion of construction in the radiology departments which increased the total amount of 2014 gifts above the amounts for 2013.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At April 30, 2014 and 2013, the Hospital had \$45,061,453 and \$45,256,372, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In fiscal years 2014 and 2013, the Hospital acquired new capital assets with a total cost of \$2,919,912 and \$775,815, respectively. Net capital assets amounts were reduced by normal depreciation of assets in the amount of \$3,089,098 in 2014 and \$3,117,928 in 2013.

Debt

At April 30, 2014 and 2013, the Hospital had \$6,908,316 and \$5,700,324, respectively, in revenue bonds and capital lease obligations outstanding, as detailed in *Note 9* to the financial statements. In 2014, the Hospital entered into new lease agreements with local banks related to the acquisition of an MRI machine, an X-ray machine and endoscopy equipment. In 2013, stimulus funds received from the *American Recovery and Reinvestment Act of 2009* for achieving meaningful use of technology criteria were used to pay off \$760,000 in long-term debt to the Foundation. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by telephoning 785.238.4131.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Balance Sheets
April 30, 2014 and 2013

Assets

	2014	2013
Current Assets		<i>(As Restated)</i>
Cash	\$ 4,500,950	\$ 3,879,396
Restricted cash - current	480,352	259,030
Patient accounts receivable, net of allowance; 2014 - \$5,888,900, 2013 - \$5,513,700	6,351,119	5,798,238
Estimated amounts due from third-party payers	550,000	1,006,000
Supplies	1,282,999	1,147,182
Prepaid expenses and other	849,225	729,739
Total current assets	14,014,645	12,819,585
Noncurrent Cash and Short-term Certificates of Deposit		
Held under bond indenture for debt service - cash	784,575	562,318
Held under bond indenture for debt service - short-term certificates of deposit	823,884	823,952
Held under bond indenture for capital acquisitions - cash	180,000	180,000
Restricted by donors for specific operating activities - cash	40,189	41,725
Restricted by donors for specific operating activities - short-term certificate of deposit	62,000	61,796
	1,890,648	1,669,791
Less amount required to meet current obligations	480,352	259,030
Total noncurrent cash and short-term certificates of deposit	1,410,296	1,410,761
Capital Assets, Net	45,061,453	45,256,372
Other Assets		
Advances to physicians, net of estimated uncollectibles; 2014 - \$242,596, 2013 - \$297,977	82,757	222,690
Total other assets	82,757	222,690
Total assets	\$ 60,569,151	\$ 59,709,408

Liabilities and Net Position

	2014	2013
Current Liabilities		<i>(As Restated)</i>
Current maturities of long-term debt	\$ 722,900	\$ 312,300
Accounts payable	2,120,751	1,522,954
Accrued payroll and related expenses	1,940,337	1,681,872
Accrued interest	56,026	58,789
Estimated amounts due to third-party payers	17,086	-
Accrued health insurance benefits	-	161,000
Unearned revenue	246,007	12,324
	<hr/>	<hr/>
Total current liabilities	5,103,107	3,749,239
Long-term Debt	<hr/>	<hr/>
	6,185,416	5,388,024
Total liabilities	<hr/>	<hr/>
	11,288,523	9,137,263
Net Position		
Net investment in capital assets	38,153,136	39,556,047
Restricted - expendable for		
Debt service	874,033	649,081
Capital acquisitions	180,000	180,000
Specific operating activities	101,356	103,281
Unrestricted	9,972,103	10,083,736
	<hr/>	<hr/>
Total net position	49,280,628	50,572,145
Total liabilities and net position	<hr/> <hr/>	<hr/> <hr/>
	\$ 60,569,151	\$ 59,709,408

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 830,553	\$ 1,186,048
Investments	4,246,696	3,749,180
Prepaid expense	51	-
Equipment – net	-	229
Total assets	\$ 5,077,300	\$ 4,935,457
 Liabilities and Net Assets		
Liabilities – Annuities Payable	\$ 19,821	\$ 26,120
Net Assets – Unrestricted	5,057,479	4,909,337
Total liabilities and net assets	\$ 5,077,300	\$ 4,935,457

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended April 30, 2014 and 2013

	2014	2013
		<i>(As Restated)</i>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 - \$5,316,497, 2013 - \$5,670,784	\$ 41,216,558	\$ 41,017,517
Electronic Health Records Incentive Revenue	988,241	1,079,028
Other	833,166	782,150
	<u>43,037,965</u>	<u>42,878,695</u>
Operating Expenses		
Salaries	20,459,491	19,815,370
Employee benefits	5,006,171	4,799,398
Purchased services and professional fees	5,089,436	4,732,866
Drugs	1,022,294	929,569
Food	517,084	543,356
Utilities	1,252,013	1,098,098
Insurance	454,305	462,849
Supplies and other	8,045,624	8,345,752
Depreciation and amortization	3,089,098	3,117,928
	<u>44,935,516</u>	<u>43,845,186</u>
	<u>(1,897,551)</u>	<u>(966,491)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	238,156	254,927
Interest income	219,241	235,531
Interest expense	(246,672)	(264,773)
Noncapital grants and gifts	28,011	18,914
	<u>238,736</u>	<u>244,599</u>
	<u>(1,658,815)</u>	<u>(721,892)</u>
Deficiency of Revenues Over Expenses Before Appropriations and Capital Grants and Gifts		
Capital Grants and Gifts	<u>367,298</u>	<u>174,351</u>
Decrease in Net Position	<u>(1,291,517)</u>	<u>(547,541)</u>
Net Position, Beginning of Year, as restated	<u>50,572,145</u>	<u>51,119,686</u>
Net Position, End of Year	<u>\$ 49,280,628</u>	<u>\$ 50,572,145</u>

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Activities
Years Ended December 31, 2013 and 2012

	2013	2012
Revenues, Gains and Other Support		
Donations	\$ 182,257	\$ 95,535
Memorials	23,659	23,135
Special events	134,510	144,234
Donated staff and facilities	40,931	41,161
Net investment income	636,786	483,824
Total revenues, gains and other support	1,018,143	787,889
Expenses and Losses		
Program expenses	658,468	275,532
Supporting services	118,777	92,688
Fund raising	92,756	100,692
Total expenses	870,001	468,912
Increase in Net Assets	148,142	318,977
Unrestricted Net Assets, Beginning of Year	4,909,337	4,590,360
Unrestricted Net Assets, End of Year	\$ 5,057,479	\$ 4,909,337

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows
Years Ended April 30, 2014 and 2013

	2014	2013
		<i>(As Restated)</i>
Operating Activities		
Receipts from and on behalf of patients	\$ 41,370,446	\$ 41,248,195
Payments to suppliers and contractors	(15,985,644)	(16,489,593)
Payments to or on behalf of employees	(25,365,434)	(24,945,925)
Other receipts, net	1,814,912	1,861,446
Net cash provided by operating activities	1,834,280	1,674,123
Noncapital Financing Activities		
Intergovernmental revenue	238,156	254,927
Noncapital grants and gifts	28,011	18,914
Net cash provided by noncapital financing activities	266,167	273,841
Capital and Related Financing Activities		
Capital grants and gifts	367,298	174,351
Principal paid on revenue bonds payable	(260,000)	(255,000)
Principal paid on capital leases	(117,229)	(806,962)
Interest paid on long-term debt	(249,435)	(291,196)
Purchase of capital assets	(1,346,061)	(695,924)
Proceeds from disposal of assets	43,598	-
Net cash used in capital and related financing activities	(1,561,829)	(1,874,731)
Investing Activities		
Interest on investments	219,241	235,531
Advances to physicians	84,552	194,608
Net change in certificates of deposit	(204)	(118)
Net change in construction escrow and debt-related accounts	68	(1,552)
Net cash provided by investing activities	303,657	428,469
Increase in Cash	842,275	501,702
Cash, Beginning of Year	4,663,439	4,161,737
Cash, End of Year	\$ 5,505,714	\$ 4,663,439

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows (Continued)
Years Ended April 30, 2014 and 2013

	2014	2013
		<i>(As Restated)</i>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 4,981,302	\$ 4,138,426
Cash in noncurrent cash	524,412	525,013
Total cash	\$ 5,505,714	\$ 4,663,439
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,897,551)	\$ (966,491)
Depreciation	3,089,098	3,117,928
(Gain) loss on disposal of assets	(6,495)	268
Change in allowance for advances to physicians	55,381	(67,528)
Changes in		
Patient accounts receivable, net	(552,881)	(177,365)
Estimated amounts due from and to third-party payers	473,086	407,679
Accounts payable and accrued expenses	695,262	(476,930)
Unearned revenue	233,683	364
Other assets and liabilities	(255,303)	(163,802)
Net cash provided by operating activities	\$ 1,834,280	\$ 1,674,123
Supplemental Cash Flows Information		
Capital lease obligation incurred	\$ 1,585,221	\$ 79,891

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 148,142	\$ 318,977
Items not requiring (providing) cash		
Decrease in prepaid expense	(51)	-
Decrease in annuities payable	(6,299)	(17,252)
Increase in lease receivable	-	873,125
Depreciation	229	1,831
Net realized and unrealized gain on investments	(539,335)	(361,344)
	<u>(397,314)</u>	<u>815,337</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Proceeds from sale of investments	2,508,411	859,725
Purchase of investments	(2,466,592)	(1,104,233)
	<u>41,819</u>	<u>(244,508)</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash	(355,495)	570,829
Cash, Beginning of Year	<u>1,186,048</u>	<u>615,219</u>
Cash, End of Year	<u>\$ 830,553</u>	<u>\$ 1,186,048</u>

Geary Community Hospital
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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

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

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

During the years ended April 30, 2014 and 2013, the Foundation distributed \$368,223 and \$168,996, respectively, to the Hospital for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at 1110 St. Mary's Road, Junction City, Kansas 66441.

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters; and employee health, dental and accident benefits. Effective May 1, 2013, commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Prior to May 1, 2013, health insurance coverage was provided through a contract managed by an insurance company.

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

Patient Accounts Receivable

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

Supplies

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

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Capital Assets

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

Land improvements	5 – 20 years
Buildings and building improvements	15 – 50 years
Fixed equipment	10 – 18 years
Major moveable equipment	3 – 20 years

Compensated Absences

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

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

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

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Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (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 2014 and 2013, the Hospital completed the requirements under the Medicare and Medicaid programs, respectively, and has recorded approximately \$988,000 and \$1,079,000 as revenue in the years ended April 30, 2014 and 2013, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

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Implementation of New Accounting Principles

In 2014, the Hospital implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Adoption of GASB 65, among other things, requires debt issuance costs, except any portion related to prepaid insurance costs, to be expensed in the period incurred, and resulted in the following reclassifications and restatements.

	As Previously Reported 2013	Implementation and GASB 65	As Restated 2013
Balance Sheet Items Affected			
Deferred financing costs	\$ 147,189	\$ (147,189)	\$ -
Total assets	59,856,597	(147,189)	59,709,408
Net position			
Net investment in capital assets	39,703,236	(147,189)	39,556,047
Total net position	50,719,334	(147,189)	50,572,145
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Interest expense	(272,875)	8,102	(264,773)
Total nonoperating revenues	236,497	8,102	244,599
Deficiency of revenues over expenses before appropriations and capital grants and gifts	(729,994)	8,102	(721,892)
Decrease in net position	(555,643)	8,102	(547,541)
Net position, beginning of year	51,274,977	(155,291)	51,119,686
Net position, end of year	50,719,334	(147,189)	50,572,145
Statement of Cash Flows			
Interest paid on long-term debt	(299,298)	8,102	(291,196)
Net cash provided by (used in) capital and related financing activities	(1,882,833)	8,102	(1,874,731)
Amortization	8,102	(8,102)	-
Net cash provided by operating activities	1,682,225	(8,102)	1,674,123

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Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care and skilled swing-bed services are paid at cost, subject to certain limitations, under a demonstration project with Medicare. Additional reimbursements under this program were approximately \$2,250,000 in 2014 and \$2,494,000 in 2013. Substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. The outpatient payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation services, inpatient gero-psychiatric services, medical education costs and home health agency services are paid at prospectively determined per diem rates that are based on the patients' acuity. Rural Health Clinic services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Rural Health Clinic services are paid on a cost reimbursement methodology. Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$1,314,042 in 2014 and \$847,565 in 2013.

Approximately 38% and 42% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2014 and 2013, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible recorded estimates will change materially in the near term.

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

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

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Note 3: Deposits and Investment Income

Deposits

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

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

At April 30, 2014 and 2013, respectively, \$207,309 and \$0 of the Hospital's bank balances of \$6,805,110 and \$5,614,132 were exposed to custodial credit risk as follows:

	2014	2013
Uninsured and uncollateralized	\$ 207,309	\$ -

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	\$ 6,391,598	\$ 5,549,187
Included in the following balance sheet captions		
Cash	\$ 4,500,950	\$ 3,879,396
Restricted cash - current	480,352	259,030
Noncurrent cash and certificates of deposit	1,410,296	1,410,761
	\$ 6,391,598	\$ 5,549,187

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Investment Income

Investment income for the years ended April 30, 2014 and 2013, consisted of:

	<u>2014</u>	<u>2013</u>
Interest income	\$ 219,241	\$ 235,531

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at April 30, 2014 and 2013, consisted of:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 942,412	\$ 1,057,019
Medicaid	949,468	813,884
Blue Cross	575,836	594,451
Other third-party payers	2,001,585	1,934,426
Patients	<u>7,770,718</u>	<u>6,912,158</u>
	12,240,019	11,311,938
Less allowance for uncollectible accounts	<u>5,888,900</u>	<u>5,513,700</u>
	<u>\$ 6,351,119</u>	<u>\$ 5,798,238</u>

Note 5: Advances to Physicians

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

At April 30, 2014 and 2013, there were advances to physicians outstanding in the amounts of \$325,353 and \$520,667, respectively.

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Note 6: Capital Assets

Capital assets activity for the years ended April 30, 2014 and 2013, were:

	2014			
	Beginning Balance	Additions	Deletions	
Land and land improvements	\$ 1,247,767	\$ -	\$ -	\$ 1,247,767
Buildings and building improvements	51,660,315	535,793	(47,161)	52,148,947
Fixed equipment	4,618,165	-	(129,767)	4,488,398
Major moveable equipment	18,747,256	2,384,119	(2,031,811)	19,099,564
Construction in progress	-	11,370	-	11,370
	<u>76,273,503</u>	<u>2,931,282</u>	<u>(2,208,739)</u>	<u>76,996,046</u>
Less accumulated depreciation				
Land improvements	1,006,911	7,594	-	1,014,505
Buildings and building improvements	12,711,055	1,450,775	(47,161)	14,114,669
Fixed equipment	4,075,599	172,900	(126,304)	4,122,195
Major moveable equipment	13,223,566	1,457,829	(1,998,171)	12,683,224
	<u>31,017,131</u>	<u>3,089,098</u>	<u>(2,171,636)</u>	<u>31,934,593</u>
Capital Assets, Net	<u>\$ 45,256,372</u>	<u>\$ (157,816)</u>	<u>\$ (37,103)</u>	<u>\$ 45,061,453</u>

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

Note 7: Medical Malpractice Claims

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

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

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Note 8: Employee Health Claims

Prior to May 1, 2013, substantially all of the Hospital's employees and their dependents were eligible to participate in the Hospital's employee health insurance plan. The Hospital was self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$100,000. Commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount. A provision was accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual was estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. Subsequent to April 30, 2013, the Hospital has purchased commercial insurance coverage for claims arising from such matters.

Activity in the Hospital's accrued employee health claims liability during 2014 and 2013 is summarized as follows:

	2014	2013
Balance, beginning of year	\$ 161,000	\$ 221,000
Current year claims incurred and changes in estimates for claims incurred in prior years	-	1,407,381
Claims paid	(161,000)	(1,467,381)
Balance, end of year	\$ -	\$ 161,000

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended April 30, 2014 and 2013:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building					
Commission bonds payable	\$ 4,925,000	\$ -	\$ -	\$ 4,925,000	\$ 105,000
Revenue bonds payable	595,000	-	260,000	335,000	335,000
Capital leases payable	180,324	1,585,221	117,229	1,648,316	282,900
	\$ 5,700,324	\$ 1,585,221	\$ 377,229	\$ 6,908,316	\$ 722,900

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

Revenue Bonds Payable

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

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, restrictions on incurrence of additional debt and maintaining minimum days unrestricted cash on hand of 30 days. As of April 30, 2014, the Hospital met the debt service coverage and cash on hand covenants.

Public Building Commission Bonds Payable

The Public Building Commission bonds payable consist of Geary County, Kansas Public Building Commission Revenue Bonds Series 2006B (Geary Community Hospital) (Bonds) in the original amount of \$4,925,000 dated July 1, 2006, which bear interest at 4.05% to 4.35%. The Bonds are payable in annual installments beginning August 1, 2014 through August 1, 2031. Semiannual interest only payments are due through August 1, 2014. The Hospital is required to make monthly deposits of approximately \$17,500 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after August 1, 2016. The redemption price is 100%. The Bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, and restrictions on incurrence of additional debt. As of April 30, 2014, the Hospital met the debt service coverage ratio covenant.

The debt service requirements of the Bonds as of April 30, 2014, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2015	\$ 654,534	\$ 440,000	\$ 214,534
2016	395,860	195,000	200,860
2017	397,409	205,000	192,409
2018	393,800	210,000	183,800
2019	395,038	220,000	175,038
2020 - 2024	1,986,105	1,260,000	726,105
2025 - 2029	2,011,365	1,585,000	426,365
2030 - 2032	1,221,234	1,145,000	76,234
	<u>\$ 7,455,345</u>	<u>\$ 5,260,000</u>	<u>\$ 2,195,345</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at April 30, 2014 and 2013, totaled \$1,640,741 and \$181,551, net of accumulated depreciation of \$217,545 and \$91,040, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest rates of 2.12% to 3.22% together with the present value of the future minimum lease payments as of April 30, 2014:

Year Ending April 30,	
2015	\$ 313,771
2016	312,961
2017	279,121
2018	271,944
2019	261,922
2020 - 2021	372,815
Total minimum lease payments	<u>1,812,534</u>
Less amount representing interest	<u>164,218</u>
Present value of future minimum lease payments	<u>\$ 1,648,316</u>

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Note 10: Restricted and Designated Net Positions

At April 30, 2014 and 2013, restricted expendable net positions were available for the following purposes:

	<u>2014</u>	<u>2013</u>
Debt service	\$ 874,033	\$ 649,081
Capital acquisitions	180,000	180,000
Specific operating activities		
Nursing scholarships	<u>101,356</u>	<u>103,281</u>
Total restricted expendable net position	<u>\$ 1,155,389</u>	<u>\$ 932,362</u>

At April 30, 2014 and 2013, \$202,866 and \$336,428, respectively, of unrestricted net position were designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remain under the control of the Board of Trustees, which may at its discretion later use for other purposes.

Note 11: Charity Care, Medicaid and Other Public Aid

Charges excluded from revenue under the Hospital's charity care policy were \$1,381,942 and \$1,016,032 for 2014 and 2013, respectively.

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

Note 12: Pension Plan

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

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The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members of KPERS are required to contribute 4.00% of their annual covered salary and the Hospital is required to contribute at an actuarially determined rate. Employer contribution rates for KPERS for 2014, 2013 and 2012 were 9.69%, 8.94% and 8.34%, respectively. The Hospital's contributions to KPERS for 2014, 2013 and 2012 were \$1,698,315, \$1,530,857 and \$1,445,545, respectively, and were equal to the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 13: Employee Incentive Plan

The Hospital has established an incentive plan which provides for one-third of income from Hospital operations before the incentive payment (exclusive of county tax proceeds, contributions and interest income) to be shared with employees. Participants employed prior to the beginning of the fiscal year must be employed during the entire plan year, have positive employee evaluations, work more than 416 hours and be employed on the last day of the fiscal year. Participants employed after the start of the fiscal year must be employed on the last day of the fiscal year and have completed their probationary period. The plan must be approved by the Board before the beginning of each fiscal year. There were no amounts payable as of April 30, 2014 and 2013.

Note 14: Contingencies

Malpractice Claims

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

Note 15: 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

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

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

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

Note 16: Geary Community Healthcare Foundation

Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Display of Net Assets by Class

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

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
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Income Taxes

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

Cash and Cash Equivalents

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

Investments

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

Equipment

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

Functional Allocation of Expenses

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

Use of Estimates

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

Donated Staff/Facilities

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

Geary Community Hospital
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Donated Services

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

Revenues, Gains and Other Support

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

Investments

The Foundation's investments as of December 31, 2013 and 2012, are summarized below and are listed at fair value. Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all Level 1 measurements).

	<u>2013</u>	<u>2012</u>
Corporate bonds	\$ 1,058,719	\$ 636,161
Mutual funds - equities	<u>3,187,977</u>	<u>3,113,019</u>
Total	<u><u>\$ 4,246,696</u></u>	<u><u>\$ 3,749,180</u></u>

The following schedule summarized the investment return for the years ended December 31, 2013 and 2012:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Interest and dividends	\$ 97,451	\$ 112,993
Net realized and unrealized gain on investments	<u>539,335</u>	<u>370,831</u>
Total investment return	<u><u>\$ 636,786</u></u>	<u><u>\$ 483,824</u></u>

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Equipment and Property

The following is a summary of the Foundation's equipment and property as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Equipment and property	\$ 22,569	\$ 22,569
Less accumulated depreciation	(22,569)	(22,340)
Total	\$ -	\$ 229

Annuities Payable

The Foundation has received charitable gift annuities. These split interest agreements call for payment to the annuitant, over the annuitant's life expectancy based on the IRS annuity tables. At December 31, 2013, the present value of the liability for these payments was \$19,821 and at December 31, 2012, was \$26,120.

Designated Net Assets

The Board of Trustees of the Foundation has designated \$3,000,000 of investments for specific future purposes as of December 31, 2013 and 2012, respectively. The total may be adjusted annually as determined by the Board of Trustees.

Related Entity

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

Subsequent Events

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

Supplementary Information

Geary Community Hospital
A Component Unit of Geary County, Kansas
Net Patient Service Revenue
Years Ended April 30, 2014 and 2013

	2014		
	Inpatient	Outpatient	Total
Nursing, dietary and room service	\$ 4,713,239	\$ -	\$ 4,713,239
Intensive care	1,788,567	-	1,788,567
Geriatric psych unit	895,620	-	895,620
Physical rehabilitation	4,260	-	4,260
Nursery	545,936	-	545,936
Operating room	5,502,877	9,185,862	14,688,739
Extended recovery	1,740	376,594	378,334
Anesthesiology	972,085	2,013,619	2,985,704
Radiology, CT, MRI and Ultrasound	2,020,828	18,094,596	20,115,424
Nuclear medicine	30,643	1,664,853	1,695,496
Laboratory	2,355,815	13,362,329	15,718,144
Inhalation therapy	1,512,896	1,351,064	2,863,960
Physical therapy	242,632	1,774,091	2,016,723
Occupational therapy	151,345	469,104	620,449
Speech therapy	101,655	704,486	806,141
Cardiac pulmonary rehabilitation	356,244	772,446	1,128,690
Sleep lab	18,252	1,623,730	1,641,982
Central supply	2,678,850	2,098,043	4,776,893
Pharmacy	3,572,918	3,118,430	6,691,348
Emergency room	869,094	9,683,808	10,552,902
Observation	-	1,337,460	1,337,460
Emergency room physicians' fees	189,803	3,228,675	3,418,478
Pediatric clinic – RHC	191,257	1,281,603	1,472,860
Gray clinic – RHC	28,481	892,784	921,265
Jenkins clinic – RHC	25,355	404,139	429,494
Frieze clinic – RHC	35,240	461,315	496,555
Mace clinic – RHC	32,766	231,089	263,855
Craig clinic – RHC	91,555	471,141	562,696
Alphacare – RHC	-	1,097,951	1,097,951
Velasquez clinic – RHC	33,494	340,824	374,318
Home health	-	519,654	519,654
Hospice	-	210,152	210,152
Home medical equipment	-	1,674,955	1,674,955
Family practice residency program	-	919	919
Occupational health clinic	-	-	-
Orthopedic clinic	366,107	941,872	1,307,979
Chapman clinic	-	130,533	130,533
Flint Hills Surgical clinic	356,926	1,421,657	1,778,583
Community wellness	-	1,800	1,800
Psych clinic	16,713	7,768	24,481
Total Hospital	\$ 29,703,193	\$ 80,949,346	110,652,539
Contractual allowances and charity care			69,435,981
Net patient service revenue			\$ 41,216,558

2013		
Inpatient	Outpatient	Total
\$ 4,748,836	\$ -	\$ 4,748,836
1,904,784	-	1,904,784
1,028,788	-	1,028,788
343,200	-	343,200
637,705	-	637,705
6,694,135	8,879,546	15,573,681
2,434	370,975	373,409
1,206,060	1,900,910	3,106,970
2,257,020	16,557,356	18,814,376
33,306	1,643,777	1,677,083
2,582,204	12,989,578	15,571,782
1,953,745	1,276,221	3,229,966
259,816	1,432,177	1,691,993
189,775	409,407	599,182
137,870	733,646	871,516
227,407	755,843	983,250
26,950	2,060,724	2,087,674
3,012,685	1,855,835	4,868,520
3,852,332	2,708,995	6,561,327
670,116	6,952,857	7,622,973
-	1,164,960	1,164,960
356,061	4,905,849	5,261,910
173,823	1,300,671	1,474,494
37,481	883,547	921,028
31,160	415,636	446,796
32,554	452,692	485,246
(11,161)	331,452	320,291
107,533	392,118	499,651
-	946,899	946,899
-	-	-
-	533,867	533,867
-	420,285	420,285
-	1,500,115	1,500,115
-	60,034	60,034
-	69,989	69,989
425,422	1,334,783	1,760,205
-	132,164	132,164
494,270	1,380,607	1,874,877
-	1,320	1,320
23,606	2,294	25,900
<u>\$ 33,439,917</u>	<u>\$ 76,757,129</u>	<u>110,197,046</u>
		<u>69,179,529</u>
		<u>\$ 41,017,517</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended April 30, 2014 and 2013

Contractual Allowances and Charity Care

	<u>2014</u>	<u>2013</u>
Hospital-sponsored charity care	\$ 1,381,942	\$ 1,016,032
Contractual allowances:		
Medicare	27,779,322	25,188,548
Medicaid	8,400,941	7,570,316
Blue Cross	9,132,808	11,174,562
Tricare	10,610,540	10,642,957
HMO/PPO	3,508,007	3,056,930
Pediatric clinic – RHC	(154,514)	260,999
Gray clinic – RHC	(5,699)	25,194
Jenkins clinic – RHC	27,450	39,050
Frieze clinic – RHC	19,955	45,165
Craig clinic – RHC	5,663	(12,480)
Alphacare – RHC	46,008	62,069
Velasquez – RHC	(38,530)	-
Chapman clinic	41,961	44,513
Flint Hills Surgical clinic	945,939	1,001,763
Mace clinic	4,072	38,421
Occupational health clinic	(7,755)	46,264
Orthopedic clinic	753,693	944,682
Psych clinic	8,926	10,057
Employee discounts	26,689	35,662
Administrative adjustments	1,632,066	2,318,041
Provision for uncollectible accounts	<u>5,316,497</u>	<u>5,670,784</u>
	<u><u>\$ 69,435,981</u></u>	<u><u>\$ 69,179,529</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues (Continued)
Years Ended April 30, 2014 and 2013

Other Operating Revenues

	<u>2014</u>	<u>2013</u>
Cafeteria and catering	\$ 479,066	\$ 393,772
Rental income	234,913	227,062
Medical records transcript fees	43,512	56,136
Vending machine receipts	4,077	5,274
Miscellaneous	<u>71,598</u>	<u>99,906</u>
	<u>\$ 833,166</u>	<u>\$ 782,150</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Operating Expenses
Years Ended April 30, 2014 and 2013

	2014		
	Salaries	Other	Total
Nursing service	\$ 1,936,569	\$ 199,753	\$ 2,136,322
Intensive care	668,848	52,236	721,084
Geriatric psych unit	419,802	113,140	532,942
Physical rehabilitation	13,686	8,115	21,801
Nursery	109,905	6,484	116,389
Operating room	1,106,429	1,418,877	2,525,306
Anesthesiology	-	133,717	133,717
Radiology, CT, MRI and Ultrasound	896,850	670,891	1,567,741
Nuclear medicine	122,175	155,164	277,339
Laboratory	768,126	1,793,934	2,562,060
Inhalation therapy	351,461	110,661	462,122
Physical therapy	-	943,509	943,509
Occupational therapy	-	280,450	280,450
Speech therapy	-	238,282	238,282
Cardiac pulmonary rehabilitation	123,786	5,758	129,544
Sleep lab	196,498	48,897	245,395
Central supply	172,995	488,864	661,859
Pharmacy	429,956	385,849	815,805
Emergency room	1,260,047	1,331,579	2,591,626
Pediatric clinic – RHC	523,090	367,639	890,729
4th Floor MAB II clinic – RHC	1,340,515	544,894	1,885,409
Frieze clinic – RHC	346,706	104,259	450,965
Craig clinic – RHC	313,936	129,937	443,873
Alphacare – RHC	480,203	325,138	805,341
Velasquez clinic – RHC	374,756	190,946	565,702
Clinic management – RHC	200,244	(200,245)	(1)
Home medical equipment	223,863	286,911	510,774
Home health	464,762	128,414	593,176
Hospice	187,213	99,649	286,862
Depreciation and amortization	-	2,888,986	2,888,986
Employee health and welfare	-	4,153,584	4,153,584
Administrative and general	3,116,633	3,325,876	6,442,509
Operation of plant	360,112	1,357,885	1,717,997
Laundry and linen	59,806	29,287	89,093
Housekeeping	581,476	118,679	700,155
Dietary	566,833	629,565	1,196,398
Dietician	63,883	1,051	64,934
Nursing administrative	818,930	106,579	925,509
Foundation	14,914	5,057	19,971
Public relations	55,024	100,833	155,857
Family practice residency program	3,255	20,801	24,056
Chapman clinic	49,475	37,351	86,826
Flint Hills Surgical clinic	1,096,759	428,472	1,525,231
Psych clinic	-	4,466	4,466
Ortho clinic	624,184	518,052	1,142,236
Occupational health clinic	-	-	-
Community wellness	2,538	-	2,538
Medical arts building	13,248	385,799	399,047
	<u>\$ 20,459,491</u>	<u>\$ 24,476,025</u>	<u>\$ 44,935,516</u>

2013		
Salaries	Other	Total
\$ 1,935,195	\$ 222,684	\$ 2,157,879
690,065	57,823	747,888
435,096	109,163	544,259
233,590	26,933	260,523
123,956	4,979	128,935
1,122,519	1,602,405	2,724,924
-	141,841	141,841
962,413	782,534	1,744,947
174,400	150,265	324,665
899,931	1,475,149	2,375,080
319,673	100,852	420,525
-	796,298	796,298
-	270,034	270,034
-	244,357	244,357
125,339	12,432	137,771
191,045	76,134	267,179
171,547	543,048	714,595
442,390	524,115	966,505
1,285,134	1,421,110	2,706,244
508,079	377,285	885,364
1,136,962	589,254	1,726,216
270,254	105,890	376,144
267,134	122,579	389,713
374,275	271,824	646,099
-	-	-
194,344	(195,252)	(908)
222,026	325,092	547,118
449,252	88,396	537,648
184,167	106,398	290,565
-	2,916,923	2,916,923
-	4,021,489	4,021,489
2,862,407	2,942,567	5,804,974
403,529	1,276,976	1,680,505
60,918	31,667	92,585
590,767	111,843	702,610
578,722	670,073	1,248,795
65,258	3,497	68,755
834,586	123,578	958,164
16,010	6,954	22,964
52,794	110,479	163,273
24,523	120,562	145,085
51,840	35,913	87,753
908,405	428,936	1,337,341
-	2,990	2,990
572,266	432,999	1,005,265
55,808	48,671	104,479
5,503	-	5,503
13,248	390,077	403,325
<u>\$ 19,815,370</u>	<u>\$ 24,029,816</u>	<u>\$ 43,845,186</u>