Norton County Hospital
A Component Unit of Norton County, Kansas

Auditor's Report and Financial Statements

June 30, 2014 and 2013

BKD LLP
CPAs & Advisors

Norton County Hospital
A Component Unit of Norton County, Kansas
June 30, 2014 and 2013

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BKD LLP
CPAs & Advisors

1551 N. Waterfront Parkway, Suite 300 // Wichita, KS 67206-6601
316.265.2811 // fax 316.265.9405 // bkd.com

Independent Auditor's Report

Board of Trustees
Norton County Hospital
Norton, Kansas

We have audited the accompanying financial statements of Norton County Hospital, a component unit of Norton County, Kansas, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Praxity MEMBER
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norton County Hospital as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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
November 19, 2014

Norton County Hospital
A Component Unit of Norton County, Kansas
Balance Sheets
June 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	$ 4,624,622	$ 3,100,479
Short-term certificates of deposit	794,740	3,498,266
Short-term investments	99,284	-
Restricted cash - current	-	20,243
Patient accounts receivable, net of allowance; 2014 - $1,595,000, 2013 - $1,605,000	1,939,056	1,173,741
Intergovernmental revenue receivable	9,203	31,050
Estimated amounts due from third-party payers	893,000	197,938
Supplies	314,596	309,724
Prepaid expenses	113,501	141,692
Total current assets	8,788,002	8,473,133
Noncurrent Cash and Certificates of Deposit		
Held under bond indenture for debt service	-	20,243
Restricted by donors for capital acquisitions and specific operating activities	975,534	75,534
	975,534	95,777
Less amount required to meet current obligations	-	20,243
	975,534	75,534
Capital Assets, Net	6,671,844	6,969,580
Other Assets	74,916	98,822
Total assets	$ 16,510,296	$ 15,617,069

See Notes to Financial Statements

Liabilities and Net Position

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 208,046	$ 204,326
Accounts payable	273,352	236,755
Accrued expenses	656,824	555,400
Accrued self-insurance costs	46,000	36,000
Unearned grant revenue	2,000	2,000
Total current liabilities	1,186,222	1,034,481
Long-term Debt	1,954,289	2,162,335
Total liabilities	3,140,511	3,196,816
Net Position		
Net investment in capital assets	4,509,509	4,582,901
Restricted - expendable for		
Debt service	-	20,243
Capital acquisitions	875,000	75,000
Specific operating activities	175,534	175,534
Unrestricted	7,809,742	7,566,575
Total net position	13,369,785	12,420,253
Total liabilities and net position	$ 16,510,296	$ 15,617,069

Norton County Hospital

A Component Unit of Norton County, Kansas

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – $335,649, 2013 – $546,489	$ 11,463,842	$ 10,744,970
Other	88,683	87,982
Total operating revenues	11,552,525	10,832,952
Operating Expenses		
Salaries	5,853,601	5,622,459
Employee benefits	1,338,670	1,123,064
Purchased services and professional fees	661,354	756,585
Drugs	765,703	696,085
Medical and surgical supplies	388,288	381,012
Food	82,733	78,328
Utilities	274,913	272,456
Legal and accounting fees	78,808	54,669
Other supplies and expenses	1,158,382	1,073,985
Depreciation	923,799	868,882
Total operating expenses	11,526,251	10,927,525
Operating Income (Loss)	26,274	(94,573)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	120,000	120,000
Interest income	56,200	45,278
Interest expense	(68,882)	(73,718)
Noncapital grants and gifts	15,940	38,871
Restricted income	-	100,000
Scholarship awarded	-	(7,000)
Total nonoperating revenues (expenses)	123,258	223,431
Excess of Revenues Over Expenses Before Capital Grants and Gifts and Transfers	149,532	128,858
Capital Grants and Gifts	800,000	75,000
Increase in Net Position	949,532	203,858
Net Position, Beginning of Year	12,420,253	12,216,395
Net Position, End of Year	$ 13,369,785	$ 12,420,253

Norton County Hospital
A Component Unit of Norton County, Kansas
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 10,003,465	$ 11,216,153
Payments to suppliers and contractors	(3,296,160)	(3,344,726)
Payments to employees	(7,090,847)	(6,794,815)
Other receipts, net	88,683	87,982
Net cash provided by (used in) operating activities	(294,859)	1,164,594
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	141,847	128,500
Noncapital grants and gifts	15,940	38,871
Scholarship income	-	100,000
Scholarship awarded	-	(7,000)
Net cash provided by noncapital financing activities	157,787	260,371
Capital and Related Financing Activities		
Capital grants and gifts	-	75,000
Principal paid on long-term debt	(204,326)	(270,756)
Interest paid on long-term debt	(69,063)	(73,478)
Purchase of capital assets	(646,081)	(427,837)
Net cash used in capital and related financing activities	(919,470)	(697,071)
Investing Activities		
Interest income received	56,200	45,278
Net change in short-term certificates of deposit and investements	2,428,708	1,764,126
Net cash provided by investing activities	2,484,908	1,809,404
Increase in Cash and Cash Equivalents	1,428,366	2,537,298
Cash and Cash Equivalents, Beginning of Year	3,196,256	658,958
Cash and Cash Equivalents, End of Year	$ 4,624,622	$ 3,196,256

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

	2014	2013
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 4,624,622	$ 3,100,479
Cash and cash equivalents in current assets - restricted	-	20,243
Cash and cash equivalents in noncurrent cash	-	75,534
Total cash and cash equivalents	$ 4,624,622	$ 3,196,256
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ 26,274	$ (94,573)
Depreciation	923,799	868,882
Changes in operating assets and liabilities		
Patient accounts receivable, net	(765,315)	359,087
Estimated amounts due from and to third-party payers	(695,062)	112,096
Accounts payable and accrued expenses	168,220	27,997
Other assets	47,225	(108,895)
Net cash provided by (used in) operating activities	$ (294,859)	$ 1,164,594
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	$ -	$ 20,018

Norton County Hospital
A Component Unit of Norton County, Kansas
Notes to Financial Statements
June 30, 2014 and 2013

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

Nature of Operations and Reporting Entity

Norton County Hospital (Hospital) is an acute care hospital located in Norton, Kansas. The Hospital is a component unit of Norton County, Kansas (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 Norton County area.

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 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, 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 is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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.

Intergovernmental Revenue

The Hospital received approximately 1% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2014 and 2013. One hundred percent of these funds were used to support operations.

Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health and dental claims up to $25,000 per individual. Claims in excess of $25,000 per individual are covered through a reinsurance policy. Annual estimated provisions are accrued for the self-insured portion of employee health and dental claims and include an estimate of the ultimate costs for both reported claims and 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.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. Short-term investments are comprised of a municipal security-based mutual fund. Investment income includes interest income.

Supplies

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

Capital Assets

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

Land improvements	5 – 20 years
Buildings	5 – 40 years
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 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 consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. 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.

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 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.

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 the purpose of employees participating in Section 403(b) annuities.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2014 and 2013, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of $470,000 and $175,187, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position as of the years ended June 30, 2014 and 2013, respectively.

Reclassifications

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

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. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. 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. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries for services through December 31, 2012. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment. Effective January 1, 2013, the Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Current payment rates were last updated using 2008, 2009 and 2010 cost report data. Base rates have not been rebased or inflated since July 1, 2010, however, effective January 1, 2014, an additional 1.25% payment add-on was approved. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately $271,814 in 2014 and $268,491 in 2013.

Approximately 61% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital 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.

Net patient service revenue for the years ended June 30, 2014 and 2013, is as follows:

	2014	2013
Gross patient service revenue	$ 15,434,904	$ 15,075,124
Plus (less):		
Contractual adjustments		
Medicare	(1,808,762)	(2,109,753)
Medicaid	(98,695)	(181,650)
Other	(1,727,956)	(1,492,262)
Provision for uncollectible accounts	(335,649)	(546,489)
	$ 11,463,842	$ 10,744,970

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital'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 June 30, 2014 and 2013, none of the Hospital's bank balances of $6,464,248 and $6,833,318, respectively, were exposed to custodial credit risk.

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At June 30, 2014 and 2013, the Hospital held investments of $99,284 and $0, respectively. The investment was in a mutual fund that was made up of Kansas municipal bonds.

The Hospital has typically only invested excess cash in certificate of deposits. The above noted investment was gifted to the Hospital in 2014 and is being monitored by the Hospital related to risk. Below is a detailed schedule of the makeup of investment income for 2014 and 2013.

Investment Income

Investment income for the years ended June 30 consisted of:

	2014	2013
Interest income	$ 59,576	$ 45,278
Net decrease in fair value of investments	(3,376)	-
	$ 56,200	$ 45,278

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	$ 6,394,896	$ 6,694,522
Included in the following balance sheet captions		
Cash and cash equivalents	$ 4,624,622	$ 3,100,479
Short-term certificates of deposit	794,740	3,498,266
Restricted cash – current	-	20,243
Noncurrent cash and certificate of deposits	975,534	75,534
	$ 6,394,896	$ 6,694,522

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 June 30, 2014 and 2013, consisted of:

	2014	2013
Medicare	$ 851,759	$ 619,587
Medicaid	71,101	81,842
Other third-party payers	1,042,913	464,266
Patients	1,568,283	1,613,046
	3,534,056	2,778,741
Less allowance for uncollectible accounts	(1,595,000)	(1,605,000)
	$ 1,939,056	$ 1,173,741

Note 5: Capital Assets

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

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 157,482	$ -	$ -	$ -	$ 157,482
Land improvements	295,520	-	-	-	295,520
Buildings	9,722,121	203,872	-	-	9,925,993
Equipment	7,083,314	225,700	-	393,219	7,702,233
Construction in progress	404,314	196,491	-	(393,219)	207,586
	17,662,751	626,063	-	-	18,288,814
Less accumulated depreciation					
Land improvements	157,736	18,510	-	-	176,246
Buildings	4,691,963	406,658	-	-	5,098,621
Equipment	5,843,472	498,631	-	-	6,342,103
	10,693,171	923,799	-	-	11,616,970
Capital assets, net	$6,969,580	$ (297,736)	$ -	$ -	$6,671,844

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 157,482	$ -	$ -	$ -	$ 157,482
Land improvements	295,520	-	-	-	295,520
Buildings	9,722,121	-	-	-	9,722,121
Equipment	6,756,785	318,615	-	7,914	7,083,314
Construction in progress	282,988	129,240	-	(7,914)	404,314
	17,214,896	447,855	-	-	17,662,751
Less accumulated depreciation					
Land improvements	139,064	18,672	-	-	157,736
Buildings	4,275,767	416,196	-	-	4,691,963
Equipment	5,409,458	434,014	-	-	5,843,472
	9,824,289	868,882	-	-	10,693,171
Capital assets, net	$7,390,607	$ (421,027)	$ -	$ -	$6,969,580

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2014 and 2013, consisted of:

	2014	2013
Payable to suppliers and contractors	$ 273,352	$ 236,755
Payable to employees (including payroll taxes and benefits)	652,649	551,406
Accrued interest payable	4,175	3,994
Accrued health and dental claims	46,000	36,000
	$ 976,176	$ 828,155

Note 7: Medical Malpractice Coverage and 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 $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 near term.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $25,000 per covered employee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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

	2014	2013
Balance, beginning of year	$ 36,000	$ 36,000
Current year claims incurred and changes in estimates for claims incurred in prior years	405,050	301,843
Claims and expenses paid	(395,050)	(301,843)
Balance, end of year	$ 46,000	$ 36,000

Note 9: Long-term Debt

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

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable - (A)	$ 620,015	$ -	$ 45,162	$ 574,853	$ 47,138
Revenue bonds payable - (B)	1,746,646	-	159,164	1,587,482	160,908
Total long-term debt	$ 2,366,661	$ -	$ 204,326	$ 2,162,335	$ 208,046

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable - (A)	$ 733,284	$ -	$ 113,269	$ 620,015	$ 45,162
Revenue bonds payable - (B)	1,904,133	-	157,487	1,746,646	159,164
Total long-term debt	$2,637,417	$ -	$ 270,756	$2,366,661	$ 204,326

Revenue Bonds Payable – (A)

The revenue bonds payable consists of the Norton County, Kansas Hospital Revenue Bonds Series 2004A, 2004C and 2005 in the original amounts of $200,000, $450,000 and $950,000, respectively. The bonds are payable in annual installments through May 27, 2026. The Hospital, acting as its own trustee, is required to make monthly deposits of approximately $11,857 to a debt service fund. All of the bonds still outstanding may be redeemed at the Hospital's option at any time at a redemption price of 100%. The bonds are secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement.

The indenture agreement requires that certain funds be established at the Hospital. Accordingly, these funds are included as assets held by the Hospital for debt service and capital acquisitions in the balance sheets. The indenture agreement also requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.10 to 1 and restrictions on incurrence of additional debt.

Revenue Bonds Payable – (B)

The revenue bonds payable consists of the Norton County, Kansas Hospital Revenue Bonds Series 2011A and 2011B in the original amounts of $1,200,000 and $1,040,000, respectively. The bonds are payable in annual installments through June 15, 2031. The Hospital, acting as its own trustee, is required to make monthly deposits of approximately $16,979 to a debt service fund. All of the bonds still outstanding may be redeemed at the Hospital's option at any time at a redemption price of 100%. The bonds are secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement.

The indenture agreement requires that certain funds be established at the Hospital. Accordingly, these funds are included as assets held by the Hospital for debt service and capital acquisitions in the balance sheets. The indenture agreement also requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.10 to 1 and restrictions on incurrence of additional debt.

The revenue bond debt service requirements as of June 30, 2014, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2015	$ 268,962	$ 208,046	$ 60,916
2016	268,786	211,747	57,039
2017	268,963	215,955	53,008
2018	268,963	220,164	48,799
2019	270,963	224,549	46,414
2020 - 2024	881,495	731,909	149,586
2025 - 2029	392,017	349,965	42,052
	$ 2,620,149	$ 2,162,335	$ 457,814

Note 10: Restricted Net Position

At June 30, 2014 and 2013, restricted expendable net position was available for the following purposes:

	2014	2013
Debt service	$ -	$ 20,243
Capital acquisitions	875,000	75,000
Specific operating activities		
Nursing scholarships	175,534	175,534
Total restricted expendable net position	$ 1,050,534	$ 270,777

Note 11: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) Employee Pension Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. 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. The report may be obtained by writing to the plan at Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

Funding Policy

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 are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 9.84%, 8.94% and 8.34% of annual covered payroll for 2014, 2013 and 2012, respectively. The Hospital's contributions to the plan for 2014, 2013 and 2012 were $515,755, $428,917 and $389,071, respectively, which equaled the required contributions for each year.

Effective for pay periods beginning on or after January 1, 2014, the required contributions for plan members increased to 5% and will increase to 6% for pay periods beginning on or after January 1, 2015. The Hospital's contribution rate increased by 0.9% for calendar year 2014 and can be increased by 1.0% in 2015, 1.1% in 2016 and 1.2% in 2017 and thereafter.

Note 12: *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 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 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.

Supplementary Information

Norton County Hospital
A Component Unit of Norton County, Kansas
Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014		
	Inpatient	Outpatient	Total
Nursing, dietary and room services			
Acute hospital	$ 852,387	$ -	$ 852,387
Swing-beds	600,114	-	600,114
Observation	6,315	476,398	482,713
Nursery	84,058	-	84,058
Operating room	58,375	279,134	337,509
Delivery room	61,858	-	61,858
Anesthesia	54,862	216,700	271,562
Radiology	139,223	2,203,954	2,343,177
Laboratory	242,063	2,087,687	2,329,750
Respiratory therapy	206,375	77,602	283,977
Physical therapy	171,112	737,283	908,395
Speech therapy	832	2,380	3,212
Electrocardiology	9,468	383,827	393,295
Central supply	136,495	324,303	460,798
Pharmacy	389,193	2,009,428	2,398,621
Outpatient clinics	155,457	134,428	289,885
Lifeline	-	24,901	24,901
Rural health clinic	-	2,133,245	2,133,245
Emergency room	9,336	1,191,012	1,200,348
	$ 3,177,523	$ 12,282,282	15,459,805
Provision for uncollectible accounts			335,649
Less contractual allowances and charity care			3,660,314
Net patient service revenue			$ 11,463,842

2013		
Inpatient	Outpatient	Total
$ 1,076,343	$ -	$ 1,076,343
581,873	-	581,873
14,013	351,543	365,556
87,610	-	87,610
37,717	240,411	278,128
73,816	-	73,816
48,019	193,658	241,677
187,187	2,128,696	2,315,883
393,776	2,021,064	2,414,840
341,132	69,650	410,782
123,723	719,191	842,914
1,632	2,032	3,664
13,052	397,475	410,527
149,963	238,801	388,764
411,313	1,734,583	2,145,896
2,080	157,948	160,028
-	24,161	24,161
-	2,446,598	2,446,598
11,180	819,045	830,225
$ 3,554,429	$ 11,544,856	15,099,285
		546,489
		3,807,826
		$ 10,744,970

Norton County Hospital

A Component Unit of Norton County, Kansas

Contractual Allowances, Charity Care and Other Operating Revenues

Years Ended June 30, 2014 and 2013

Contractual Allowances and Charity Care

	2014	2013
Charity care	$ 138,490	$ 126,715
Contractual allowances		
Medicare	1,808,762	2,109,753
Medicaid	98,695	181,650
Blue Cross	1,301,147	1,062,837
Other	310,394	321,322
Employee discounts	2,826	5,549
	$ 3,660,314	$ 3,807,826

Other Operating Revenues

	2014	2013
Cafeteria sales	$ 61,154	$ 57,925
Rent	2,100	4,792
Medical records transcript fees	8,375	7,798
Medical supplies sold	3,761	1,476
Miscellaneous	13,293	15,991
	$ 88,683	$ 87,982

Norton County Hospital
A Component Unit of Norton County, Kansas
Operating Expenses
Years Ended June 30, 2014 and 2013

	2014		
	Salaries	Other	Total
Nursing services	$ 1,070,090	$ 50,680	$ 1,120,770
Operating room and recovery room	104,366	39,148	143,514
Delivery room	76,098	11,230	87,328
Anesthesia	212,135	48,101	260,236
Radiology	254,073	418,243	672,316
Laboratory	255,252	363,078	618,330
Chemotherapy	13,668	145,003	158,671
Respiratory therapy	64,720	12,826	77,546
Physical therapy	204,088	61,652	265,740
Speech therapy	-	3,180	3,180
Electrocardiology	49,132	126,859	175,991
Central supply	32,481	82,010	114,491
Pharmacy	73,860	592,608	666,468
Outpatient clinics	40,447	960	41,407
Doctors' building clinic	1,788,927	130,083	1,919,010
Emergency room	156,174	36,108	192,282
Depreciation	-	923,799	923,799
Employee benefits	-	1,338,670	1,338,670
Administration and general	712,414	719,771	1,432,185
Social services	4,361	900	5,261
Plant operation	121,395	374,448	495,843
Laundry and linen	30,424	9,998	40,422
Housekeeping	118,233	22,111	140,344
Dietary	228,448	101,546	329,994
Nursing administration	136,550	6,981	143,531
Medical records	106,265	52,657	158,922
	$ 5,853,601	$ 5,672,650	$ 11,526,251

2013		
Salaries	Other	Total
$ 1,095,835	$ 42,058	$ 1,137,893
103,671	18,913	122,584
73,821	5,130	78,951
188,079	39,790	227,869
249,456	388,822	638,278
273,359	357,560	630,919
-	-	-
67,169	13,093	80,262
144,137	157,328	301,465
-	6,465	6,465
48,193	127,120	175,313
32,021	97,581	129,602
72,251	673,984	746,235
27,988	390	28,378
1,795,029	112,840	1,907,869
132,266	54,476	186,742
-	868,882	868,882
-	1,123,064	1,123,064
653,131	682,682	1,335,813
4,475	1,289	5,764
116,856	371,669	488,525
35,107	8,683	43,790
103,671	17,913	121,584
216,474	97,592	314,066
91,519	2,140	93,659
97,951	35,602	133,553
$ 5,622,459	$ 5,305,066	$ 10,927,525

Norton County Hospital
A Component Unit of Norton County, Kansas
Insurance Coverage
June 30, 2014

Employers Mutual Casualty Company	
Policy No. 9A7-00-45-15, expiring April 1, 2015	
All risk of physical loss, replacement cost;	
90% coinsurance:	
Buildings – Hospital and Clinic	$ 19,441,800
Contents – Hospital and Clinic	6,042,000
Accounts receivable	620,000
Comprehensive automobile liability:	
Bodily injury and property damage	
(Employer's hired and non-hired auto liability)	1,000,000
Commercial Inland Marine – Data processing:	
Equipment	52,500
Business income other than rental value	1,000,000
Equipment breakdown	20,271,800
Kansas Medical Mutual Insurance Company	
Policy No. HPL 0015180, expiring March 1, 2015	
Hospital Professional Liability	
Insurance company coverage:	
Per claim	200,000
Annual aggregate	600,000
Kansas Health Care Stabilization Fund Coverage:	
Per claim	800,000
Annual aggregate	2,400,000
General Liability	
Bodily injury, property damage and personal injury:	
Per accident or event	1,000,000
Annual aggregate	3,000,000
Mid-level Provider Professional Liability	
Insurance company coverage:	
Per claim	1,000,000
Aggregate	3,000,000
Employee benefit liability	
Per claim	250,000
Aggregate	250,000
Policy No. MPL 11560, expiring January 1, 2015	
Physician Professional Liability	
Insurance company coverage:	
Per claim	200,000
Aggregate	600,000
Kansas Health Care Stabilization Fund Coverage:	
Per claim	800,000
Aggregate	2,400,000

Norton County Hospital
A Component Unit of Norton County, Kansas
Insurance Coverage (Continued)
June 30, 2014

Cincinnati Insurance Company		
Policy No. BCH 0007851, expiring April 1, 2015		
Directors and Officers' Liability/Employment Practices:		
Each incident	$	1,000,000
Aggregate		1,000,000
Kansas Hospital Association		
Certificate No. 92, expiring January 1, 2015		
Workers' compensation:		
Per accident		500,000
Per employee disease		500,000
Policy limit		500,000
Cincinnati Insurance Company		
Policy No. 139309, expiring April 1, 2015		
Comprehensive automobile liability:		
Bodily injury and property damage		
(Employer's hired and non-hired auto liability)		1,000,000