FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
PAWNEE VALLEY COMMUNITY HOSPITAL, INC.
JUNE 30, 2014 AND 2013

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants
and Management Consultants

Heather R. Eichem, CPA
Brian J. Florea, CPA
John R. Helms, CPA
Eric L. Otting, CPA

Darrell D. Loyd, CPA
Jere Noe, CPA
John E. Wendling, CPA
Barry W. Boyles, CPA
Adam C. Crouch, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Pawnee Valley Community Hospital, Inc.

We have audited the accompanying financial statements of Pawnee Valley Community Hospital, Inc., which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations and changes in net assets 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

534 S. Kansas Ave., Suite 1500, Topeka, Kansas 66603-3491
(785) 233-4226 1-888-272-9665 FAX: (785) 233-6830
www.wnnjcpa.com E-MAIL: wnnj@wnnjcpa.com

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Pawnee Valley Community Hospital, Inc., as of June 30, 2014 and 2013, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
November 20, 2014

PAWNEE VALLEY COMMUNITY HOSPITAL, INC.

BALANCE SHEETS

June 30,

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 4,775,783	$ 2,959,431
Patient accounts receivable, net of allowance for uncollectible accounts of $525,000 in 2014 and $575,000 in 2013	2,330,522	2,012,785
Other receivables	24,483	100,428
Estimated third-party payor settlements	99,868	208,797
Inventories	265,762	242,175
Prepaid expenses	113,774	110,847
Total current assets	7,610,192	5,634,463
Beneficial interest in net assets of foundation	409,383	
Total assets	$ 8,019,575	$ 5,634,463

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 270,822	$ 253,931
Estimated third-party payor settlements	165,000	81,000
Accrued compensation	490,079	482,078
Other current liabilities	148,035	126,190
Due to Hays Medical Center	2,340,360	1,843,301
Total current liabilities	3,414,296	2,786,500
DUE TO PAWNEE COUNTY	4,195,896	2,847,963
Total liabilities	7,610,192	5,634,463
NET ASSETS		
Temporarily restricted	409,383	
Total liabilities and net assets	$ 8,019,575	$ 5,634,463

The accompanying notes are an integral part of these statements.

PAWNEE VALLEY COMMUNITY HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30,

	2014	2013
Revenues, gains, and other support		
Patient service revenue	$ 16,271,321	$ 14,801,912
Provision for bad debts	(1,384,494)	(1,864,499)
Net patient service revenue	14,886,827	12,937,413
Other revenues	295,237	219,711
Total revenues, gains, and other support	15,182,064	13,157,124
Expenses		
Salaries and wages	4,755,900	4,417,384
Employee benefits	1,205,103	1,157,774
Supplies and other	6,335,200	5,874,537
Interest	4,613	6,817
Total expenses	12,300,816	11,456,512
Income from operations	2,881,248	1,700,612
Other income		
Gifts and bequests	11,063	9,589
Investment income	6,148	5,560
Other	1,146	500
Change in beneficial interest in net assets of foundation	409,383	
	427,740	15,649
Excess of revenues over expenses	3,308,988	1,716,261
Net transfers to Pawnee County	(1,551,672)	(470,050)
Change in amount due to Pawnee County	(1,347,933)	(1,246,211)
Change in net assets	409,383	-
Net assets at beginning of year		
Net assets at end of year	$ 409,383	$ -

The accompanying notes are an integral part of these statements.

PAWNEE VALLEY COMMUNITY HOSPITAL, INC.

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 409,383	$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for bad debts	1,384,494	1,864,499
Undistributed portion of change in beneficial interest in net assets of foundation	(409,383)	
Increase in amount due to Pawnee County	2,632,578	1,716,261
Changes in assets and liabilities		
Patient accounts receivable	(1,702,231)	(2,431,053)
Other receivables	75,945	(91,229)
Estimated third-party payor settlements	192,929	440,847
Inventories	(23,587)	74,590
Prepaid expenses	(2,927)	5,065
Accounts payable	16,891	(34,093)
Accrued compensation	8,001	102,216
Other current liabilities	21,845	37,036
Due to Hays Medical Center	497,059	(998,213)
Net cash provided by operating activities	3,100,997	685,926
Cash flows from financing activities		
Transfers to Pawnee County	(1,284,645)	(1,270,050)
Transfers from Pawnee County		800,000
Net cash used by financing activities	(1,284,645)	(470,050)
Net increase in cash and cash equivalents	1,816,352	215,876
Cash and cash equivalents at beginning of year	2,959,431	2,743,555
Cash and cash equivalents at end of year	$ 4,775,783	$ 2,959,431
Cash paid during the year for interest	$ 4,879	$ 6,177

The accompanying notes are an integral part of these statements.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Pawnee Valley Community Hospital, Inc. (the Hospital), is a Kansas not-for-profit corporation organized to operate an acute care hospital facility located in Larned, Kansas, and to provide health-related services to residents of Pawnee County, Kansas, and the surrounding areas.

Hays Medical Center, Inc. (HMC), is a not-for-profit, acute care hospital located in Hays, Kansas. During September 2009, HMC formed Hays Med Partners - Pawnee County, Inc. (HMed), a Kansas not-for-profit corporation. HMC is the sole voting member of HMed. During March 2010, HMed entered into a change of membership agreement and became the sole voting member of St. Joseph Memorial Hospital, Inc. (SJMH). SJMH's corporate name was changed to Pawnee Valley Community Hospital, Inc., in April 2010. Upon execution of the change in membership agreement, the Hospital entered into an affiliation agreement with the County of Pawnee, Kansas (Pawnee County), to operate a critical access hospital located in Larned, Kansas. Pawnee County owns all fixed assets, including land, buildings, and equipment, used by the Hospital. Under the affiliation agreement, Pawnee County gives the Hospital use of those assets and agrees to subsidize any operating losses incurred by the Hospital.

Pawnee Valley Community Hospital Foundation (the PVCH Foundation) was formed in March 2012. The PVCH Foundation is a Kansas not-for-profit corporation organized to support the activities and mission of the Hospital. The Hospital and Pawnee County are the only members of the PVCH Foundation.

2. 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and cash equivalents

For purposes of the accompanying statement of cash flows, the Hospital considers all highly-liquid debt instruments purchased with a maturity of one year or less to be cash equivalents.

4. Allowance for uncollectible accounts

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

5. Inventories

Inventories consist primarily of supplies and are stated at the lower of cost or market, with cost determined on the first-in, first-out method.

6. Temporarily restricted net assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

7. Statement of operations and changes in net assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as other income.

8. Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

9. Donor-restricted gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted gifts whose restrictions are met within the same year as received are reported as unrestricted support in the accompanying financial statements.

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Charity care

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

11. Excess of revenues over expenses

The statement of operations and changes in net assets includes *excess of revenues over expenses*. Changes in unrestricted net assets which are excluded from *excess of revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

12. Income taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on the related income pursuant to Section 501(a) of the Code. Management is not aware of any uncertainties in income tax positions. The years ended June 30, 2014, 2013, 2012, and 2011, remain subject to examination by both federal and state taxing authorities.

13. Subsequent events

The Hospital has evaluated subsequent events through November 20, 2014, which is the date the financial statements were available to be issued.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program. Hospital services rendered to Medicare program beneficiaries are paid under cost reimbursement methodologies. Physician services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. The Hospital is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare

NOTE B - NET PATIENT SERVICE REVENUE - Continued

administrative contractor through June 30, 2011. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Medicaid - Prior to January 1, 2013, hospital services rendered to Medicaid program beneficiaries not enrolled in a Medicaid managed care plan were paid under cost reimbursement methodologies. Hospital services rendered by the Hospital to all other Medicaid program beneficiaries were paid at prospectively determined rates. After December 31, 2012, hospital services rendered to all Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is paid for cost reimbursable items at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the state Medicaid agency. The Hospital's Medicaid cost reports have been reviewed by the state Medicaid agency through June 30, 2011.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payments under these agreements are based on prospectively determined rates or discounts from established charges.

A summary of net patient service revenue follows:

	2014	2013
Gross patient service charges		
Inpatient	$ 6,585,607	$ 6,236,366
Outpatient	26,411,739	22,811,198
	32,997,346	29,047,564
Contractual adjustments	(15,516,841)	(13,339,237)
Uninsured patient discounts	(711,221)	(458,554)
Charity care	(438,878)	(352,561)
Administrative discounts	(59,085)	(95,300)
Patient service revenue	16,271,321	14,801,912
Provision for bad debts	(1,384,494)	(1,864,499)
Net patient service revenue	$ 14,886,827	$ 12,937,413

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates less a discount given to all uninsured patients as a matter

NOTE B - NET PATIENT SERVICE REVENUE - Continued

of policy. This discount was 25 percent through April 30, 2013, and 40 percent thereafter. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual adjustments, charity care, and other discounts (but before the provision for bad debts) by major payor sources is as follows:

	2014	2013
Medicare	$ 8,599,057	$ 7,528,795
Medicaid	253,125	354,718
Blue Cross	3,460,075	3,098,073
Other third-party payors	3,225,315	2,726,785
Patients	733,749	1,093,541
Patient service revenue	$ 16,271,321	$ 14,801,912

Revenue from the Medicare and Medicaid programs accounted for approximately 53 percent and 2 percent, respectively, of the Hospital's patient service revenue net of contractual adjustments, charity care, and other discounts during 2014, and approximately 51 percent and 2 percent, respectively, of the Hospital's patient service revenue net of contractual adjustments, charity care, and other discounts during 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital is dedicated to providing both services and leadership in caring for the needy and accepts all patients regardless of ability to pay. The Hospital provides such care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Hospital does not attempt to collect amounts initially determined to qualify as charity care, such charges are not included in net patient service revenue. The costs incurred in providing these services of approximately $124,000 and $135,000 during the years ended June 30, 2014 and 2013, respectively, are included in the Hospital's operating expenses and are estimated using the Hospital's overall cost-to-charge ratio, including other operating revenues. In addition, the Hospital provides care for medically indigent patients covered under the Medicaid welfare program at rates substantially below standard charges.

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts for self-pay patients was 76 percent and 95 percent of self-pay accounts receivable at June 30, 2014 and 2013, respectively. In addition, the Hospital's net bad debt write-offs were $1,434,494 and $1,809,499 for the years ended June 30, 2014 and 2013, respectively. The decreases in both values were the result of a policy change regarding discounts for uninsured patients. The Hospital increased its uninsured discount from 25 percent to 40 percent during May 2013. The Hospital did not change its charity care policy during the years ended June 30, 2014 or 2013. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

NOTE D - BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION

The PVCH Foundation was established to raise funds to support the purposes of religious, charitable, scientific, literary, and educational organizations that are exempt under Section 501(c)(3) of the Internal Revenue Code. The Hospital has been identified as, and has been, its primary beneficiary. Distributions are made at the discretion of the Board of Directors of the PVCH Foundation. Since the Hospital has been the primary beneficiary of the PVCH Foundation's assets, the Hospital and the PVCH Foundation are financially interrelated organizations. As such, the Hospital recognizes as an asset its interest in the net assets of the PVCH Foundation. At the end of each reporting period, it adjusts the interest for its share of the change in net assets of the PVCH Foundation occurring during that period. Transactions occurring between the two organizations have been eliminated during the preparation of these financial statements.

NOTE E - EMPLOYEE HEALTH INSURANCE

The Hospital participates in a self-insured employee health insurance plan sponsored by HMC. A portion of its risk is reinsured under that plan. The reinsurance arrangement generally covers claims totaling over $165,000 for each covered individual on an annual basis. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. HMC retains an agent to process and settle claims. Estimated claims incurred by the Hospital's participants in the health insurance plan that were unpaid at June 30, 2014 and 2013, were $115,287 and $96,416, respectively, and are included in other current liabilities.

NOTE F - DUE TO PAWNEE COUNTY

The Hospital has an affiliation agreement with Pawnee County (see Note A1). The affiliation agreement can be terminated by either the Hospital or Pawnee County by giving 180 days notice to the other party. If the affiliation agreement is terminated, the Hospital must transfer all of its net assets to Pawnee County, excluding any property and equipment purchased and owned by the Hospital for which it received no reimbursement from Pawnee County for the purchase. Any such property and equipment owned by the Hospital at the time of the termination of the affiliation agreement must be purchased from the Hospital by Pawnee County at a price equal to the book value of the property

NOTE F - DUE TO PAWNEE COUNTY - Continued

and equipment. Accordingly, the Hospital has recorded a liability to Pawnee County for the unrestricted net assets that will revert to Pawnee County if the affiliation agreement is terminated. This liability is classified as a long-term liability in the balance sheet since the affiliation agreement is not expected to be terminated within one year of the balance sheet date.

NOTE G - FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents of its service area. Expenses related to providing these services are as follows:

	2014	2013
Health care services	$ 8,624,310	$ 8,187,021
General and administrative	3,676,506	3,269,491
	$ 12,300,816	$ 11,456,512

NOTE H - PENSION PLAN

The Hospital participates in a multiple-employer defined contribution pension plan with a money purchase and a 403(b) arrangement sponsored by HMC (the Plan). Through December 31, 2013, the Plan provided for employer contributions equal to 3.50 percent of participants' eligible wages and additional employer contributions matching participant contributions, not to exceed 2.00 percent of the participants' eligible wages. Effective January 1, 2014, the Plan now provides for employer contributions matching participant contributions, not to exceed 6.00 percent of the participants' eligible wages. Additionally, participants may contribute up to the 403(b) elective deferral limits allowed by law. The contributions are invested as directed by the participants. To be eligible, participants must have completed six months of service and be at least 21 years of age. Total pension expense under the Plan was $172,961 and $170,558 during the years ended June 30, 2014 and 2013, respectively.

NOTE I - PROFESSIONAL LIABILITY INSURANCE

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of $1,000,000 per occurrence with an aggregate amount in any policy year of $3,000,000. All coverage is on a claims-made basis. The above policies have been renewed for the policy period from March 1, 2014 to March 1, 2015. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

NOTE J - OPERATING LEASES

The Hospital leases various items of equipment under operating leases with terms ending through the year ending June 30, 2018.

Rental expense from these operating leases was $82,942 and $214,265 for the years ended June 30, 2014 and 2013, respectively. Scheduled future minimum rental payments for operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2014, are as follows:

2015	$ 56,072
2016	40,392
2017	37,416
2018	9,834
	$143,714

NOTE K - CONCENTRATION OF CREDIT RISK

At June 30, 2014, the Hospital had uninsured balances on deposit with financial institutions of $4,193,559. That amount was invested in an overnight repurchase account collateralized by U.S. government or other highly liquid securities. While not insured or guaranteed by the U.S. government, management believes the credit risk related to these other liquid asset investments is minimal.

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

	2014	2013
Medicare	32%	34%
Medicaid	7	8
Blue Cross	19	14
Commercial	22	21
Patients	20	23
	100%	100%

NOTE L - PLEDGED ASSETS

Certificates of deposit totaling $96,000 are pledged to the State of Kansas as security against future unemployment claims.

NOTE M - CONTINGENCIES

The Hospital is involved in litigation arising in the normal course of business. After consulting with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect to the Hospital's financial position or results from operations.

NOTE N - RELATED PARTY TRANSACTIONS

HMC provides numerous services to the Hospital. Services that HMC provides to other western Kansas hospitals, including mobile mammography, mobile sonography, nuclear medicine, and biomedical services, are billed to the Hospital at HMC's standard rates on a monthly basis. Emergency room physician and support staff services, including patient billing and collections, information technology, accounting, materials management, transcription, coding, and laundry, are billed at HMC's labor cost including employee benefits on a monthly basis.

The affiliation agreement with Pawnee County requires the Hospital to make an annual payment to HMC, funded by Centers for Medicare & Medicaid Services (CMS), for general management and administrative services provided by HMC to the Hospital. The payment due to HMC, funded by CMS, equals the Medicare and Medicaid cost reimbursement the Hospital receives for its allocated portion of HMC's cost for the shared management and administrative services included in the Hospital's annual cost reports.

Services purchased from HMC are summarized as follows:

	2014	2013
By type		
Emergency room physician and other shared employees' wages and benefits	$ 866,268	$ 843,782
General management and administrative	2,090,000	1,504,000
Patient and general accounting	73,440	72,000
Information technology	29,400	28,800
Materials management	24,480	24,000
Medical records, coding, and transcription	97,525	92,003
Mobile mammography, sonography, and nuclear medicine	141,815	220,185
Physical and occupational therapy	1,495	4,796
Laundry	42,835	43,186
Biomedical	18,797	19,847
	$3,386,055	$2,852,599
As reported in the financial statements		
Salaries and wages	$ 813,875	$ 784,562
Employee benefits	52,393	59,220
Supplies and other	2,519,787	2,008,817
	$3,386,055	$2,852,599

The Hospital leases a physician clinic to HMC. Rental income under this arrangement was $86,130 and $67,026 for the years ended June 30, 2014 and 2013, respectively.