

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Independent Accountants' Report and Financial Statements
December 31, 2011 and 2010



Comanche County Hospital
A Component Unit of Comanche County, Kansas
December 31, 2011 and 2010

Contents

Independent Accountants' Report..... 1

Financial Statements

Balance Sheets..... 2

Statements of Revenues, Expenses and Changes in Net Assets 3

Statements of Cash Flows..... 4

Notes to Financial Statements 6

Independent Accountants' Report

Board of Trustees
Comanche County Hospital
Coldwater, Kansas

We have audited the accompanying balance sheets of Comanche County Hospital (Hospital), a component unit of Comanche County, Kansas (County), as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Comanche County Hospital as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

May 24, 2012

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	\$ 221,314	\$ 411,850
Short-term investments	300,000	600,000
Patient accounts receivable, net	480,046	682,754
Estimated amounts due from third-party payers	1,010,000	-
Supplies	60,656	109,222
Prepaid expenses and other	66,163	81,779
Total current assets	2,138,179	1,885,605
Noncurrent Cash and Investments		
Restricted by donors for capital acquisitions	8,432	8,389
Capital Assets, Net		
Total assets	\$ 5,910,277	\$ 5,799,744
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 86,708	\$ 35,263
Accounts payable	27,420	36,373
Accrued salaries and payroll taxes	92,060	93,037
Accrued vacation benefits	80,308	75,835
Estimated amounts due to third-party payers	-	125,000
Deferred revenue	639,438	-
Total current liabilities	925,934	365,508
Long-term Debt		
Total liabilities	403,797	194,435
Total liabilities	1,329,731	559,943
Net Assets		
Invested in capital assets, net of related debt	3,273,161	3,676,052
Restricted - expendable for capital acquisitions	8,432	8,389
Unrestricted	1,298,953	1,555,360
Total net assets	4,580,546	5,239,801
Total liabilities and net assets	\$ 5,910,277	\$ 5,799,744

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue	\$ 3,110,742	\$ 2,976,311
Other	23,885	26,530
	<u>3,134,627</u>	<u>3,002,841</u>
Operating Expenses		
Salaries and wages	2,082,159	2,018,850
Supplies and other	1,611,787	1,476,151
Depreciation	560,294	387,139
	<u>4,254,240</u>	<u>3,882,140</u>
Operating Loss	<u>(1,119,613)</u>	<u>(879,299)</u>
Nonoperating Revenues (Expenses)		
Property taxes	446,292	563,412
Investment income	8,531	12,317
Interest expense	(12,634)	(392)
Noncapital grants and gifts	13,615	16,786
Other	4,554	4,739
	<u>460,358</u>	<u>596,862</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts and Transfers	(659,255)	(282,437)
Capital Grants and Gifts	-	1,565
Transfers to County	<u>-</u>	<u>(210,000)</u>
Decrease in Net Assets	(659,255)	(490,872)
Net Assets, Beginning of Year	<u>5,239,801</u>	<u>5,730,673</u>
Net Assets, End of Year	<u>\$ 4,580,546</u>	<u>\$ 5,239,801</u>

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 2,817,888	\$ 3,449,649
Payments to suppliers and contractors	(1,540,225)	(1,539,792)
Payments to employees	(2,078,663)	(2,051,657)
Other receipts, net	23,885	26,530
Net cash used in operating activities	(777,115)	(115,270)
Noncapital Financing Activities		
Property taxes	446,292	563,412
Noncapital grants and gifts	13,615	16,786
Other	4,554	4,739
Net cash provided by noncapital financing activities	464,461	584,937
Capital and Related Financing Activities		
Purchases of capital assets	(108,869)	(33,598)
Capital grants and gifts	-	1,565
Principal paid on long-term debt	(64,867)	(13,417)
Interest paid on long-term debt	(12,634)	(392)
Transfers to County	-	(210,000)
Net cash used in capital and related financing activities	(186,370)	(255,842)
Investing Activities		
Proceeds from disposition investments	300,000	50,000
Interest on investments	8,531	12,317
Net cash provided by investing activities	308,531	62,317
Increase (Decrease) in Cash	(190,493)	276,142
Cash, Beginning of Year	420,239	144,097
Cash, End of Year	\$ 229,746	\$ 420,239
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 221,314	\$ 411,850
Cash in noncurrent cash and investments	8,432	8,389
	\$ 229,746	\$ 420,239

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (1,119,613)	\$ (879,299)
Depreciation	560,294	387,139
Provision for uncollectible accounts	1,840	48,847
Changes in operating assets and liabilities		
Patient accounts receivable	200,868	(450,509)
Estimated amounts due from and to third-party payers	(495,562)	875,000
Supplies	48,566	(20,896)
Prepaid expenses and other	15,616	(39,540)
Accounts payable and accrued expenses	10,876	(36,012)
Net cash used in operating activities	\$ (777,115)	\$ (115,270)
 Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 325,674	\$ 229,698
Capital assets acquisitions included in accounts payable	\$ -	\$ 16,333

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

Comanche County Hospital (Hospital) is a rural acute care hospital located in Coldwater, Kansas. The Hospital is a component unit of Comanche 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 Comanche 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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, such as county appropriations, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), included those that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less or that have not been designated by the donors for capital acquisitions to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010.

Property Taxes

The Hospital received approximately 12% and 16% in 2011 and 2010 of its financial support from property taxes. Revenue from property taxes is recognized in the year for which the taxes are levied.

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; medical malpractice; 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.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Noncurrent cash and investments include assets restricted by donors for capital acquisitions.

Investment income includes interest income earned on bank deposits and certificates of deposit.

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.

Supplies

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

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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	20 years
Building	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 30 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 Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, 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 assets are 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 assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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.

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 technology (EHR). Critical access hospitals 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. 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 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.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

In 2011, the Hospital completed the first-year requirements under the Medicare program and has recorded a receivable (included in estimated amounts due from third-party payers) and deferred revenue of approximately \$639,000 as of December 31, 2011.

Subsequent Events

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

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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 who are not part of a Medicaid managed care network. The Hospital is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Hospital and reviews thereof by the Kansas Department of Health and Environment. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 83% and 81% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. 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.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Net patient service revenue consists of the following for the years ended December 31:

	2011	2010
Gross patient service revenue	\$ 2,098,152	\$ 2,199,078
Plus (less) contractual adjustments:		
Medicare	1,195,370	861,037
Medicaid	11,392	144,414
Other adjustments	(177,376)	(163,228)
Charity care	(14,956)	(16,143)
Provision for uncollectible accounts	(1,840)	(48,847)
	\$ 3,110,742	\$ 2,976,311

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 December 31, 2011 and 2010, respectively, \$104,306 and \$591,167 of the Hospital's bank balances of \$604,306 and \$1,091,167 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution	\$ 104,306	\$ 591,167

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	<u>\$ 529,746</u>	<u>\$ 1,020,239</u>
Included in the following balance sheet captions		
Cash	\$ 221,314	\$ 411,850
Short-term investments	300,000	600,000
Noncurrent cash and investments	<u>8,432</u>	<u>8,389</u>
	<u>\$ 529,746</u>	<u>\$ 1,020,239</u>

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 December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 173,648	\$ 240,807
Medicaid	4,192	8,539
Blue Cross	53,625	53,003
Other third-party payers	33,669	49,270
Patients	<u>159,177</u>	<u>148,456</u>
	424,311	500,075
Allowance for contractual adjustments	118,347	272,131
Allowance for uncollectible accounts	<u>(62,612)</u>	<u>(89,452)</u>
	<u>\$ 480,046</u>	<u>\$ 682,754</u>

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

The mix of accounts receivables from patients and third-party payers at December 31 are as follows:

	2011	2010
Medicare	67%	79%
Medicaid	1%	1%
Blue Cross	7%	6%
Other third-party payers	5%	4%
Patients	20%	10%
	100%	100%

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 44,430	\$ -	\$ -	\$ -	\$ 44,430
Land improvements	109,157	-	-	-	109,157
Building	3,903,308	6,750	-	-	3,910,058
Fixed equipment	446,623	-	-	-	446,623
Major moveable equipment	1,272,212	411,460	-	-	1,683,672
	5,775,730	418,210	-	-	6,193,940
Less accumulated depreciation					
Land improvements	24,895	9,893	-	-	34,788
Building	1,059,533	217,622	-	-	1,277,155
Fixed equipment	112,402	34,477	-	-	146,879
Major moveable equipment	673,150	298,302	-	-	971,452
	1,869,980	560,294	-	-	2,430,274
Capital Assets, Net	\$ 3,905,750	\$ (142,084)	\$ -	\$ -	\$3,763,666

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 44,430	\$ -	\$ -	\$ -	\$ 44,430
Land improvements	109,157	-	-	-	109,157
Building	3,904,040	-	(732)	-	3,903,308
Fixed equipment	446,885	-	(262)	-	446,623
Major moveable equipment	998,938	280,155	(6,881)	-	1,272,212
	<u>5,503,450</u>	<u>280,155</u>	<u>(7,875)</u>	<u>-</u>	<u>5,775,730</u>
Less accumulated depreciation					
Land improvements	15,002	9,893	-	-	24,895
Building	842,395	217,400	(262)	-	1,059,533
Fixed equipment	78,187	34,477	(262)	-	112,402
Major moveable equipment	554,606	125,369	(6,825)	-	673,150
	<u>1,490,190</u>	<u>387,139</u>	<u>(7,349)</u>	<u>-</u>	<u>1,869,980</u>
Capital Assets, Net	<u>\$ 4,013,260</u>	<u>\$ (106,984)</u>	<u>\$ (526)</u>	<u>\$ -</u>	<u>\$3,905,750</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 229,698	\$ 325,674	\$ (64,867)	\$490,505	\$ 86,708	\$ 403,797

	2010					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 13,417	\$ 229,698	\$ (13,417)	\$229,698	\$ 35,263	\$ 194,435

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011 and 2010, totaled \$485,243 and \$221,916, respectively, net of accumulated depreciation of \$200,383 and \$7,782, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 3.46% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 102,538
2013	102,538
2014	102,538
2015	102,538
2016	102,538
2017	25,037
Total minimum lease payments	537,727
Less amount representing interest	47,222
Present value of future minimum lease payments	\$ 490,505

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Note 8: Employee Benefit Plans

Defined Benefit Pension Plan

Plan Description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the plan at KPERS, 611 South Kansas, Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar years 2011, 2010 and 2009 was 6.74%, 6.14% and 5.54%, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2011, 2010 and 2009 were \$145,260, \$134,202 and \$102,093, respectively, equal to the statutory required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%

Deferred Compensation Plan

In 2005, the Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$11,550 and \$8,575 for the years ended December 31, 2011 and 2010, respectively. The Hospital does not contribute to the 457(b) plan.

Comanche County Hospital
A Component Unit of Comanche County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Note 9: Management Agreement

The Board of Trustees has entered into a management agreement with Great Plains Health Alliance, Inc. The agreement can be canceled with 60 days' notice. Fees incurred under this agreement were \$68,988 and \$71,957 in 2011 and 2010, respectively. Amounts included in accounts payable related to these services totaled \$6,382 and \$6,074 at December 31, 2011 and 2010, respectively.

Note 10: General Obligation Bonds

In November 2006, the voters of Comanche county approved the issuance of \$4.5 million of general obligation bonds to be used to renovate the Hospital. Upon completion of the project, \$3,861,631 of expenditures paid by the County with bond funds was transferred to the Hospital. The bonds are a liability of the County and are not reflected on the Hospital's books, as the Hospital has no responsibility for debt service. The Hospital transferred \$210,000 to the County during 2010 to assist with the long-term debt obligations associated with the general obligation bonds. The Hospital did not transfer any such funds to the County during 2011.

Note 11: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.