

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



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

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Graham County Hospital
Hill City, Kansas

We have audited the accompanying balance sheets of Graham County Hospital, a component unit of Graham County, Kansas, 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 Graham 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.

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

BKD, LLP

June 18, 2012

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

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 90,179	\$ 25,836
Cash and cash equivalents - internally designated	1,016,740	245,530
Patient accounts receivable, net of allowance; 2011 - \$912,000, 2010 - \$897,000	1,207,172	1,378,976
Estimated amounts due from third-party payers	150,000	149,710
Supplies	166,102	165,991
Prepaid expenses	62,311	84,408
	<u>2,692,504</u>	<u>2,050,451</u>
Capital Assets, Net	<u>2,235,251</u>	<u>2,229,599</u>
Noncurrent Investments	<u>74,824</u>	<u>74,615</u>
Total assets	<u><u>\$ 5,002,579</u></u>	<u><u>\$ 4,354,665</u></u>
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 70,388	\$ 82,087
Accounts payable	199,890	123,573
Accrued expenses	478,732	451,586
Estimated amounts due to third-party payers	50,000	-
	<u>799,010</u>	<u>657,246</u>
Total current liabilities	799,010	657,246
Long-term Debt	<u>7,852</u>	<u>78,240</u>
Total liabilities	<u>806,862</u>	<u>735,486</u>
Net Assets		
Invested in capital assets, net of related debt	2,133,057	2,069,272
Restricted - nonexpendable	64,714	64,714
Unrestricted	1,997,946	1,485,193
	<u>4,195,717</u>	<u>3,619,179</u>
Total net assets	4,195,717	3,619,179
Total liabilities and net assets	<u><u>\$ 5,002,579</u></u>	<u><u>\$ 4,354,665</u></u>

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

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$284,209, 2010 - \$657,906	\$ 7,101,810	\$ 6,526,930
Other	297,177	308,035
Total operating revenues	7,398,987	6,834,965
Operating Expenses		
Salaries and wages	3,918,508	3,838,804
Employee benefits	1,181,582	1,123,964
Purchased services and professional fees	812,032	734,070
Other supplies and expenses	1,525,522	1,456,931
Depreciation	297,171	232,010
Total operating expenses	7,734,815	7,385,779
Operating Loss	(335,828)	(550,814)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	852,481	669,958
Interest income	6,768	17,689
Interest expense	(10,508)	(18,203)
Noncapital grants and gifts	63,625	26,538
Total nonoperating revenues	912,366	695,982
Excess of Revenues Over Expenses Before Capital Grants and Gifts	576,538	145,168
Capital Grants and Gifts	-	7,917
Increase in Net Assets	576,538	153,085
Net Assets, Beginning of Year	3,619,179	3,466,094
Net Assets, End of Year	\$ 4,195,717	\$ 3,619,179

Graham County Hospital
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Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,323,324	\$ 5,902,244
Payments to suppliers and contractors	(2,263,205)	(2,173,033)
Payments to employees	(5,072,944)	(4,887,227)
Other receipts, net	<u>296,545</u>	<u>306,285</u>
Net cash provided by (used in) operating activities	<u>283,720</u>	<u>(851,731)</u>
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	852,481	669,958
Noncapital grants and gifts	<u>63,625</u>	<u>26,538</u>
Net cash provided by noncapital financing activities	<u>916,106</u>	<u>696,496</u>
Capital and Related Financing Activities		
Capital grants and gifts	-	7,917
Principal paid on long-term debt	(82,087)	(90,703)
Interest paid on long-term debt	(10,508)	(18,203)
Proceeds from sale of assets	632	1,750
Purchases of capital assets	<u>(278,869)</u>	<u>(255,879)</u>
Net cash used in capital and related financing activities	<u>(370,832)</u>	<u>(355,118)</u>
Investing Activities		
Interest income received	6,768	18,039
Net change in scholarship receivable	<u>(209)</u>	<u>4,123</u>
Net cash provided by investing activities	<u>6,559</u>	<u>22,162</u>
Increase (Decrease) in Cash and Cash Equivalents	835,553	(488,191)
Cash and Cash Equivalents, Beginning of Year	<u>271,366</u>	<u>759,557</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,106,919</u>	<u>\$ 271,366</u>

Graham County Hospital
A Component Unit of Graham 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 Provided by (Used in) Operating Activities		
Operating loss	\$ (335,828)	\$ (550,814)
Depreciation	297,171	232,010
Gain on sale of assets	(632)	(1,750)
Provision for uncollectible accounts	284,209	657,906
Changes in operating assets and liabilities		
Patient accounts receivable	(112,405)	(1,192,882)
Estimated amounts due from and to third-party payers	49,710	(89,710)
Accounts payable and accrued expenses	79,509	82,267
Other assets and liabilities	21,986	11,242
	<u>\$ 283,720</u>	<u>\$ (851,731)</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 90,179	\$ 25,836
Cash in noncurrent cash and investments	1,016,740	245,530
	<u>\$ 1,106,919</u>	<u>\$ 271,366</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 23,954	\$ -

Graham County Hospital
A Component Unit of Graham 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

Graham County Hospital (Hospital) is an acute care hospital located in Hill City, Kansas. The Hospital is a component unit of Graham County (County), and governed by an elected five-member Board of Trustees. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Graham 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 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) including those issued on or after November 30, 1989, except those that 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit.

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Intergovernmental Revenue

The Hospital received approximately 10% and 9% in 2011 and 2010, respectively, of its financial support from intergovernmental revenue derived from property taxes levied by the County. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied 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.

Patient Accounts Receivable

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer 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 uncollectible accounts, if necessary.

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 uncollectible accounts 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Supplies

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

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Noncurrent Investments

Noncurrent investments include land and assets set aside by the Board of Trustees for future capital improvements, scholarships and operations over which the Board of Trustees retains control and may at its direction subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

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 when 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 nonexpendable net assets are assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

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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 will recognize 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.

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The Hospital has not yet completed the first-year requirements under either the Medicare and Medicaid programs and no amounts are recorded as revenue in the years ended December 31, 2011 and 2010.

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 recognizes patient service revenue associated with services provided to patients who have third-party payer 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 for services provided. 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 uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of revenues, expenses and changes in net assets as a component of 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 Critical Access Hospital (CAH), 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. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. 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. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital and Rural Health Clinic are 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. 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.

Graham County Hospital
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Notes to Financial Statements
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Approximately 66% and 64% 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.

Note 3: Deposits

Deposits

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities 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, none of the Hospital's bank balances of \$1,133,050 and \$311,740, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	<u>\$ 1,106,919</u>	<u>\$ 271,366</u>
Included in the following balance sheet captions		
Cash	\$ 90,179	\$ 25,836
Cash and cash equivalents - internally designated	<u>1,016,740</u>	<u>245,530</u>
	<u>\$ 1,106,919</u>	<u>\$ 271,366</u>

Graham County Hospital
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Notes to Financial Statements
December 31, 2011 and 2010

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	\$ 679,764	\$ 819,350
Medicaid	51,184	22,909
Other third-party payers	314,001	273,651
Patients	<u>1,074,223</u>	<u>1,160,066</u>
	2,119,172	2,275,976
Less allowance for uncollectible accounts	<u>912,000</u>	<u>897,000</u>
	<u>\$ 1,207,172</u>	<u>\$ 1,378,976</u>

Note 5: Noncurrent Investments

The Hospital has assets which are either restricted by donors or designated by the Board of Trustees and consisted of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Pasture land and improvements	\$ 64,714	\$ 64,714
Scholarship receivable	<u>10,110</u>	<u>9,901</u>
	<u>\$ 74,824</u>	<u>\$ 74,615</u>

Graham County Hospital
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Note 6: Capital Assets

Capital assets activity for the years ended December 31, were:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 25,779	\$ -	\$ -	\$ -	\$ 25,779
Land improvements	73,382	-	-	-	73,382
Buildings	3,302,609	11,215	-	-	3,313,824
Equipment	2,614,605	244,072	(23,205)	-	2,835,472
Construction in progress	-	47,536	-	-	47,536
	<u>6,016,375</u>	<u>302,823</u>	<u>(23,205)</u>	<u>-</u>	<u>6,295,993</u>
Less accumulated depreciation					
Land improvements	66,663	1,192	-	-	67,855
Buildings	1,713,390	85,242	-	-	1,798,632
Equipment	2,006,723	210,737	(23,205)	-	2,194,255
	<u>3,786,776</u>	<u>297,171</u>	<u>(23,205)</u>	<u>-</u>	<u>4,060,742</u>
Capital assets, net	<u>\$ 2,229,599</u>	<u>\$ 5,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,235,251</u>
	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 21,440	\$ -	\$ -	\$ 4,339	\$ 25,779
Land improvements	77,721	-	-	(4,339)	73,382
Buildings	3,295,565	7,044	-	-	3,302,609
Equipment	2,435,621	248,835	(69,851)	-	2,614,605
	<u>5,830,347</u>	<u>255,879</u>	<u>(69,851)</u>	<u>-</u>	<u>6,016,375</u>
Less accumulated depreciation					
Land improvements	64,322	2,341	-	-	66,663
Buildings	1,626,863	86,527	-	-	1,713,390
Equipment	1,933,432	143,142	(69,851)	-	2,006,723
	<u>3,624,617</u>	<u>232,010</u>	<u>(69,851)</u>	<u>-</u>	<u>3,786,776</u>
Capital assets, net	<u>\$ 2,205,730</u>	<u>\$ 23,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,229,599</u>

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The Hospital is currently updating their computer system's hardware and software. This project is expected to be completed in May 2012 with an overall cost of approximately \$800,000, including this latest upgrade in the amount of \$632,000.

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: Long-term Debt

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 160,327	\$ -	\$ 82,087	\$ 78,240	\$ 70,388

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 251,030	\$ -	\$ 90,703	\$ 160,327	\$ 82,087

Graham County Hospital
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Capital Lease Obligations

The Hospital is obligated under leases for equipment that is accounted for as capital leases. Assets under capital lease as of December 31, 2011 and 2010, totaled \$383,858 and \$147,500, respectively, net of accumulated depreciation of \$313,130 and \$236,358, respectively. The following is a schedule of future minimum lease payments under the capital lease including interest at rates of 4.7% to 9.7% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 73,426
2013	7,960
Total minimum lease payments	<u>81,386</u>
Less amounts representing interest	<u>3,146</u>
	<u><u>\$ 78,240</u></u>

Note 9: 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% or 6% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 7.74%, 7.14% and 6.54% of annual covered payroll for 2011, 2010 and 2009, respectively. The Hospital's contributions to the plan for 2011, 2010 and 2009, were \$265,717, \$251,180 and \$199,648, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6% per year.

Graham County Hospital
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Note 10: 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.

Supplementary Information

Graham County Hospital
A Component Unit of Graham County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Nursing, dietary and room services			
Acute hospital	\$ 1,226,495	\$ -	\$ 1,226,495
Swing-beds	505,240	-	505,240
Observation	1,040	68,481	69,521
Operating room	3,575	29,266	32,841
Anesthesia	11,244	50,931	62,175
Anesthesia supplies	-	1,375	1,375
Radiology	78,513	310,245	388,758
Mammography	-	40,278	40,278
Ultrasound	8,954	128,878	137,832
Nuclear medicine	653	108,680	109,333
Computerized tomography	112,800	354,894	467,694
Magnetic resonance imaging	17,050	233,522	250,572
Laboratory	255,252	1,104,045	1,359,297
Blood administration	8,170	1,167	9,337
Physical therapy	74,957	635,370	710,327
Occupational therapy	-	-	-
Speech therapy	2,240	5,110	7,350
Electrocardiology	181,857	639,913	821,770
Central supply	318,472	26,466	344,938
Pharmacy	281,171	407,427	688,598
Cardiac rehabilitation	-	560	560
Outpatient clinics	-	40,550	40,550
Emergency room	60,216	1,118,143	1,178,359
Rural health clinic	-	1,474,441	1,474,441
Hospice	-	6,854	6,854
	<u>\$ 3,147,899</u>	<u>\$ 6,786,596</u>	9,934,495
Provision for uncollectible accounts			284,209
Less contractual allowances and charity care			<u>2,548,476</u>
Net patient service revenue			<u>\$ 7,101,810</u>

2010		
Inpatient	Outpatient	Total
\$ 896,310	\$ -	\$ 896,310
385,756	-	385,756
4,195	66,589	70,784
-	65,814	65,814
2,720	57,520	60,240
-	2,100	2,100
65,528	322,299	387,827
-	38,788	38,788
16,338	132,557	148,895
685	73,346	74,031
133,394	395,958	529,352
6,975	250,525	257,500
226,771	1,112,580	1,339,351
9,071	2,201	11,272
45,320	557,973	603,293
53	-	53
1,580	-	1,580
100,251	473,375	573,626
257,261	38,790	296,051
285,690	348,504	634,194
7,956	9,404	17,360
-	39,283	39,283
44,714	1,122,186	1,166,900
-	1,476,992	1,476,992
-	14,015	14,015
\$ 2,490,568	\$ 6,600,799	9,091,367
		657,906
		1,906,531
		\$ 6,526,930

Graham County Hospital
A Component Unit of Graham County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2011 and 2010

	2011	2010
Contractual Allowances and Charity Care		
Charity care	\$ 37,457	\$ 14,842
Contractual allowances		
Medicare	1,653,753	1,247,048
Medicaid	238,178	162,483
Blue Cross	458,345	426,839
Other	160,743	55,319
	<u>\$ 2,548,476</u>	<u>\$ 1,906,531</u>
 Other Operating Revenues		
Cafeteria sales	\$ 6,255	\$ 9,869
Other meals sales	215,742	211,724
Medical records transcript fees	2,517	1,306
Medical supplies sold	4,105	5,199
Education fees	-	150
Laundry services	23,480	29,851
Miscellaneous	45,078	49,936
	<u>\$ 297,177</u>	<u>\$ 308,035</u>

Graham County Hospital
A Component Unit of Graham County, Kansas
Operating Expenses
Years Ended December 31, 2011 and 2010

	2011		Total
	Salaries	Other	
Nursing service	\$ 864,703	\$ 358,669	\$ 1,223,372
Operating room and recovery room	1,959	7,733	9,692
Anesthesia	-	31,636	31,636
Anesthesia supplies	-	6,868	6,868
Radiology	157,260	120,404	277,664
Mammography	-	25,561	25,561
Ultrasound	-	48,560	48,560
Nuclear medicine	-	57,885	57,885
Computerized tomography	-	120,272	120,272
Magnetic resonance imaging	-	88,200	88,200
Laboratory	183,673	299,177	482,850
Blood administration	-	10,834	10,834
Physical therapy	232,142	84,475	316,617
Speech therapy	-	3,963	3,963
Electrocardiology	33,058	125,474	158,532
Central supply	56,052	103,767	159,819
Pharmacy	51,696	404,947	456,643
Cardiac rehabilitation	-	-	-
Outpatient clinics	667	7,143	7,810
Emergency room	163,358	28,995	192,353
Rural health clinic	924,920	373,585	1,298,505
Home health	-	25	25
Hospice	4,290	1,421	5,711
Lifeline	-	14,577	14,577
Wellness	-	161	161
Depreciation	-	98,087	98,087
Employee benefits	67,893	87,019	154,912
Administration and general	421,407	631,661	1,053,068
Plant operation	85,016	208,159	293,175
Laundry and linen	74,325	47,737	122,062
Housekeeping	114,336	74,754	189,090
Dietary	222,629	242,840	465,469
Nursing administration	156,728	43,133	199,861
Medical records	102,396	58,585	160,981
	<u>\$ 3,918,508</u>	<u>\$ 3,816,307</u>	<u>\$ 7,734,815</u>

2010		
Salaries	Other	Total
\$ 813,697	\$ 307,773	\$ 1,121,470
2,758	14,721	17,479
-	44,472	44,472
-	6,912	6,912
119,111	115,817	234,928
1,292	24,551	25,843
3,177	54,094	57,271
299	46,596	46,895
28,118	127,347	155,465
2,094	102,702	104,796
168,725	294,484	463,209
-	10,683	10,683
209,400	71,972	281,372
-	904	904
28,226	117,881	146,107
53,935	107,434	161,369
41,616	353,104	394,720
13,778	3,199	16,977
5,639	8,901	14,540
233,805	49,797	283,602
943,716	336,592	1,280,308
-	310	310
6,835	2,113	8,948
-	15,336	15,336
-	4,167	4,167
-	102,454	102,454
69,673	90,335	160,008
415,242	550,045	965,287
82,394	191,640	274,034
78,021	44,044	122,065
92,745	51,868	144,613
208,039	208,088	416,127
114,776	37,694	152,470
101,693	48,945	150,638
<u>\$ 3,838,804</u>	<u>\$ 3,546,975</u>	<u>\$ 7,385,779</u>