

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



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

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## Independent Accountants' Report

Board of Trustees  
Greeley County Hospital  
Tribune, Kansas

We have audited the accompanying balance sheets of Greeley County Hospital, a component unit of Greeley 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 Greeley County Hospital as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted 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*

August 15, 2012

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

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 72,154	\$ 317,071
Patient accounts receivable, net of allowance; 2011 – \$324,045, 2010 – \$366,000	992,303	1,184,959
Other accounts receivable	371,634	38,840
Estimated amounts due from third-party payers	189,000	10,000
Supplies	89,202	106,133
Prepaid expenses and other	118,709	153,907
Total current assets	1,833,002	1,810,910
<b>Capital Assets, Net</b>		
	2,971,020	3,262,081
Total assets	\$ 4,804,022	\$ 5,072,991
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 178,505	\$ 130,426
Accounts payable	698,139	771,361
Line of credit	150,000	150,000
Accrued expenses	618,782	639,197
Deferred grant revenue	235,958	15,000
Total current liabilities	1,881,384	1,705,984
<b>Long-term Debt</b>		
	254,450	201,910
Total liabilities	2,135,834	1,907,894
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,738,065	2,929,745
Unrestricted	(69,877)	235,352
Total net assets	2,668,188	3,165,097
Total liabilities and net assets	\$ 4,804,022	\$ 5,072,991

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

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$176,000, 2010 – \$221,000	\$ 7,574,176	\$ 7,983,725
Outside services	450,908	532,094
Other	<u>79,531</u>	<u>116,786</u>
Total operating revenues	<u>8,104,615</u>	<u>8,632,605</u>
<b>Operating Expenses</b>		
Salaries and wages	4,583,698	4,985,718
Employee benefits	1,147,106	1,295,016
Purchased services and professional fees	1,318,903	1,234,070
Medical supplies and drugs	680,278	818,892
Food	183,140	161,665
Utilities	237,145	238,331
Supplies and other	622,747	740,227
Depreciation and amortization	<u>335,061</u>	<u>347,004</u>
Total operating expenses	<u>9,108,078</u>	<u>9,820,923</u>
<b>Operating Loss</b>	<u>(1,003,463)</u>	<u>(1,188,318)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	280,680	356,120
Interest income	3,732	2,523
Interest expense	(52,627)	(50,333)
Noncapital grants and gifts	<u>274,769</u>	<u>282,853</u>
Total nonoperating revenues	<u>506,554</u>	<u>591,163</u>
<b>Decrease in Net Assets</b>	(496,909)	(597,155)
<b>Net Assets, Beginning of Year</b>	<u>3,165,097</u>	<u>3,762,252</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,668,188</u>	<u>\$ 3,165,097</u>

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

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 7,587,832	\$ 8,032,851
Payments to suppliers and contractors	(3,063,306)	(2,924,494)
Payments to and on behalf of employees	(5,751,219)	(6,432,258)
Other receipts, net	<u>197,645</u>	<u>842,530</u>
Net cash used in operating activities	<u>(1,029,048)</u>	<u>(481,371)</u>
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue supporting operations	280,680	356,120
Proceeds from draw on line of credit	200,000	150,000
Interest payments	(30,433)	(19,151)
Noncapital grants and gifts	<u>495,727</u>	<u>260,389</u>
Net cash provided by noncapital financing activities	<u>945,974</u>	<u>747,358</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(133,381)	(130,415)
Interest paid on long-term debt	(22,194)	(31,182)
Purchase of capital assets	<u>(10,000)</u>	<u>(73,528)</u>
Net cash used in capital and related financing activities	<u>(165,575)</u>	<u>(235,125)</u>
<b>Investing Activities</b>		
Interest income received	<u>3,732</u>	<u>2,523</u>
Net cash provided by investing activities	<u>3,732</u>	<u>2,523</u>
<b>Increase (Decrease) in Cash</b>	(244,917)	33,385
<b>Cash, Beginning of Year</b>	<u>317,071</u>	<u>283,686</u>
<b>Cash, End of Year</b>	<u>\$ 72,154</u>	<u>\$ 317,071</u>

**Greeley County Hospital**  
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**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Net Operating Expenses to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (1,003,463)	\$ (1,188,318)
Depreciation and amortization	335,061	347,004
Changes in operating assets and liabilities		
Patient accounts receivable, net	192,656	(390,874)
Estimated amounts due from and to Medicare	(179,000)	440,000
Accounts payable and accrued expenses	(93,637)	92,877
Supplies and prepaid expenses	(280,665)	217,940
Net cash used in operating activities	<b>\$ (1,029,048)</b>	<b>\$ (481,371)</b>
<b>Supplemental Cash Flows Information</b>		
Capital assets acquired through trade-in of equipment	\$ 88,616	\$ -
Capital lease obligations incurred for capital assets	\$ 34,000	\$ -

**Greeley County Hospital**  
**A Component Unit of Greeley 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***

Greeley County Hospital (Hospital) is an acute care hospital located in Tribune, Kansas. The Hospital is a component unit of Greeley 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, emergency care and residential long-term care services to patients in the Greeley county area. It also operates a home health agency in the same geographic area and rural health clinics in Wallace and Hamilton counties.

On January 1, 2006, the Board of Trustees of Greeley County Hospital (Lessor) (Hospital) organized Greeley County Health Services, Inc. (Lessee) (GCHS) as a Section 501(c)(3) organization for the purpose of assuming custody of certain assets and liabilities related to hospital operations and operate the Hospital as of January 1, 2006, pursuant to a lease agreement ending December 31, 2011. Board members of the Lessor act as the Board of Trustees for the Lessee. At the conclusion of the lease, the Lessee has the right to extend the term of the lease for two (2) additional periods of five (5) years each, beyond the expiration of the initial term. Rent expense under this lease is \$1 paid at the beginning of the lease term. The Lessee has exercised the right to extend the lease for a five year period ending December 31, 2016.

The financial statements include the accounts of the Hospital and GCHS. All significant intercompany accounts and transactions have been eliminated.

***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, interest 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) that do not conflict with or contradict GASB pronouncements.

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***Use of Estimates***

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

***Intergovernmental Revenue***

The Hospital received approximately 3% and 4% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2011 and 2010, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

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

***Risk Management***

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

Workers' compensation coverage is provided through a fund managed by the Kansas Workers Risk Cooperative. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional reserves have been accrued.

***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.

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**Capital Assets**

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

Land improvements	5 – 25 years
Buildings	5 – 40 years
Fixed equipment	3 – 20 years
Major moveable equipment	3 – 20 years

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation, holiday 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 benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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 two 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. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

**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.

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**Charity Care**

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

**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. GCHS is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, both entities are subject to federal income tax on any unrelated business taxable income.

**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 recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* The Hospital is paid for inpatient, outpatient and rural health clinic services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Services rendered to Medicaid managed care patients are reimbursed under a prospective reimbursement 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.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the

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Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS, on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$117,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 57% and 58% of net patient service revenue was 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**

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, \$0 and \$19,486 of the Hospital's bank balances of \$244,759 and \$389,946 were exposed to custodial credit risk as follows:

	<b>2011</b>	<b>2010</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ -</u>	<u>\$ 19,486</u>

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**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	\$ 28,637	\$ 22,108
Deposits held by a nongovernmental entity - GCHS	43,517	294,963
	<u>\$ 72,154</u>	<u>\$ 317,071</u>
Included in the following balance sheet captions		
Cash	<u>\$ 72,154</u>	<u>\$ 317,071</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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 361,727	\$ 553,225
Medicaid	85,466	92,337
Blue Cross	101,034	153,244
Other third-party payers	206,951	160,735
Patients	561,170	591,418
	<u>1,316,348</u>	<u>1,550,959</u>
Less allowance for uncollectible accounts	324,045	366,000
	<u>\$ 992,303</u>	<u>\$ 1,184,959</u>

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

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 49,851	\$ -	\$ -	\$ 49,851
Land improvements	11,585	-	-	11,585
Buildings	3,600,737	-	-	3,600,737
Fixed equipment	43,172	-	-	43,172
Major moveable equipment	<u>1,252,723</u>	<u>132,616</u>	<u>(409,000)</u>	<u>976,339</u>
	<u>4,958,068</u>	<u>132,616</u>	<u>(409,000)</u>	<u>4,681,684</u>
Less accumulated depreciation				
Land improvements	4,763	751	-	5,514
Buildings	846,211	158,110	-	1,004,321
Fixed equipment	34,492	3,730	-	38,222
Major moveable equipment	<u>810,521</u>	<u>172,470</u>	<u>(320,384)</u>	<u>662,607</u>
	<u>1,695,987</u>	<u>335,061</u>	<u>(320,384)</u>	<u>1,710,664</u>
Capital Assets, Net	<u><u>\$ 3,262,081</u></u>	<u><u>\$ (202,445)</u></u>	<u><u>\$ (88,616)</u></u>	<u><u>\$ 2,971,020</u></u>
	<b>2010</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 49,851	\$ -	\$ -	\$ 49,851
Land improvements	11,585	-	-	11,585
Buildings	3,547,268	53,469	-	3,600,737
Fixed equipment	70,562	-	(27,390)	43,172
Major moveable equipment	<u>1,232,664</u>	<u>20,059</u>	<u>-</u>	<u>1,252,723</u>
	<u>4,911,930</u>	<u>73,528</u>	<u>(27,390)</u>	<u>4,958,068</u>
Less accumulated depreciation				
Land improvements	4,012	751	-	4,763
Buildings	691,649	154,562	-	846,211
Fixed equipment	57,572	4,310	(27,390)	34,492
Major moveable equipment	<u>623,140</u>	<u>187,381</u>	<u>-</u>	<u>810,521</u>
	<u>1,376,373</u>	<u>347,004</u>	<u>(27,390)</u>	<u>1,695,987</u>
Capital Assets, Net	<u><u>\$ 3,535,557</u></u>	<u><u>\$ (273,476)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,262,081</u></u>

**Greeley County Hospital**  
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**Notes to Financial Statements**  
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**Note 6: Medical Malpractice Coverage and Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

**Note 7: Line of Credit**

The Hospital periodically borrows funds from banks to finance operations on an interim basis. The line of credit bears interest at the prime rate as published in the Wall Street Journal plus 4.25%, is secured by the Hospital's cash accounts and matures one year from issuance. The following is a summary of line of credit transactions for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 150,000	\$ -
Additions	200,000	150,000
Deductions	<u>(200,000)</u>	<u>-</u>
Ending balance	<u>\$ 150,000</u>	<u>\$ 150,000</u>

**Greeley County Hospital**  
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**Notes to Financial Statements**  
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**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 and 2010:

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable to bank	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 88,217
Capital lease obligations	332,336	34,000	133,381	232,955	90,288
Total long-term debt	\$ 332,336	\$ 234,000	\$ 133,381	\$ 432,955	\$ 178,505
	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligations	\$ 462,751	\$ -	\$ 130,415	\$ 332,336	\$ 130,426

**Note Payable to Bank**

The note payable to bank is due January 20, 2014, with principal and interest at prime plus 3.5% payable monthly. The note is secured by the Hospital's cash accounts, supplies inventories and capital assets. The debt service requirements as of December 31, 2011, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 98,402	\$ 88,217	\$ 10,185
2013	107,347	102,889	4,458
2014	8,946	8,894	52
	\$ 214,695	\$ 200,000	\$ 14,695

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

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2011 and 2010, totaled \$199,794 and \$286,301, respectively, net of accumulated depreciation of \$245,560 and \$438,436, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at varying rates of 6.19% to 8.00% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 104,222
2013	43,192
2014	28,803
2015	28,803
2016	28,803
2017 - 2018	43,202
Total minimum lease payments	<u>277,025</u>
Less amount representing interest	<u>44,070</u>
Present value of future minimum lease payments	<u><u>\$ 232,955</u></u>

**Note 9: Pension Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3.8% and 5.7% for 2011 and 3.9% and 5.8% for 2010. Contributions actually made by plan members and the Hospital aggregated \$173,370 and \$259,729 during 2011 and \$194,657 and \$290,209 during 2010, respectively.

**Note 10: Future Liquidity Needs**

The Hospital has incurred losses from operations for the past two years. Management is considering several alternatives for mitigating these conditions during the next year to address liquidity needs. These include evaluation of staffing patterns in the Hospital, pursuit of additional tax support and adjustments of charge rates for services to meet market conditions.

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**Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *6*.

***Admitting Physicians***

The Hospital is served by four admitting physicians whose patients comprise substantially all of the Hospital's net patient service revenue.

**Note 12: 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 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.

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**Note 13: Future Commitment**

The Hospital has entered into contracts to purchase a new information technology (IT) system including electronic health records during 2012. Total cost of the new IT system, including installation, is estimated to be \$1,368,000. The Hospital has entered into a note payable with a bank for approximately \$1,094,000 which is secured by the IT system. The note payable matures March 1, 2017. The note calls for six interest only payments beginning in January 2012, with principal and interest payments due monthly thereafter. Interest on the note is fixed at 3.25%.