Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010

BKD LLP
CPAs & Advisors

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
December 31, 2011 and 2010

Contents

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Independent Accountants' Report

Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas

We have audited the accompanying balance sheets of Hodgeman County Health Center (Health Center), a component unit of Hodgeman 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 Health Center'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 Hodgeman County Health Center 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 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 30, 2012

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	$ 1,192,067	$ 846,201
Cash restricted for debt service	116,464	95,827
Patient accounts receivable, net	744,383	602,206
Estimated amounts due from third-party payers	330,000	165,000
Supplies	125,316	129,317
Prepaid expenses and other	90,772	42,036
Total current assets	2,599,002	1,880,587
Noncurrent Cash and Certificates of Deposit - Restricted for Debt Service	178,089	172,241
Capital Assets, Net	6,500,221	6,483,692
Unamortized Bond Costs	8,206	10,371
Total assets	$ 9,285,518	$ 8,546,891
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 122,027	$ 132,499
Accounts payable	189,797	259,036
Accrued expenses	306,792	233,988
Total current liabilities	618,616	625,523
Long-term Debt	856,370	978,397
Total liabilities	1,474,986	1,603,920
Net Assets		
Invested in capital assets, net of related debt	5,521,824	5,372,796
Restricted - expendable for debt service	294,553	268,068
Unrestricted	1,994,155	1,302,107
Total net assets	7,810,532	6,942,971
Total liabilities and net assets	$ 9,285,518	$ 8,546,891

Hodgeman County Health Center
A Component Unit of Hodgeman 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 - $112,154, 2010 - $416,174	$ 5,831,441	$ 4,939,337
Electronic health records incentive revenue	391,441	-
Bramley Place	132,755	116,459
Other	73,067	55,156
Total operating revenues	6,428,704	5,110,952
Operating Expenses		
Salaries and wages	2,663,411	2,411,580
Employee benefits	498,389	501,742
Purchased services and professional fees	1,070,971	1,040,697
Supplies and other	1,412,411	1,299,313
Depreciation	453,968	425,671
Total operating expenses	6,099,150	5,679,003
Operating Income (Loss)	329,554	(568,051)
Nonoperating Revenues (Expenses)		
Tax appropriations		
Ad valorem	279,000	279,000
Contributions and grants	29,360	10,834
Interest income	7,460	8,963
Interest expense	(55,397)	(51,142)
Total nonoperating revenues (expenses)	260,423	247,655
Excess (Deficiency) of Revenues Over Expenses Before Transfers	589,977	(320,396)
Transfers to/from Hodgeman County	277,584	(120,000)
Increase (Decrease) in Net Assets	867,561	(440,396)
Net Assets, Beginning of Year	6,942,971	7,383,367
Net Assets, End of Year	$ 7,810,532	$ 6,942,971

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 5,915,705	$ 5,033,004
Payments to suppliers and contractors	(2,584,700)	(2,228,461)
Payments to and on behalf of employees	(3,087,988)	(2,921,110)
Other receipts, net	205,822	171,615
Net cash provided by operating activities	448,839	55,048
Noncapital Financing Activities		
Tax appropriations received	292,633	269,841
Contributions and grants received	29,360	10,834
Interest paid	(970)	(1,399)
Transfer to County	-	(120,000)
Net cash provided by noncapital financing activities	321,023	159,276
Capital and Related Financing Activities		
Principal paid on long-term debt	(132,499)	(137,864)
Interest paid on long-term debt	(55,435)	(50,758)
Purchase of capital assets	(217,037)	(28,545)
Net cash used in capital and related financing activities	(404,971)	(217,167)
Investing Activities		
Interest income received	6,653	7,648
Increase in Cash	371,544	4,805
Cash, Beginning of Year	1,041,872	1,037,067
Cash, End of Year	$ 1,413,416	$ 1,041,872
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 1,192,067	$ 846,201
Cash restricted for debt service	221,349	195,671
Total cash	$ 1,413,416	$ 1,041,872

Hodgeman County Health Center
A Component Unit of Hodgeman 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 Operating Activities		
Operating income (loss)	$ 329,554	$ (568,051)
Depreciation	453,968	425,671
Amortization of bond costs	2,165	2,366
Changes in operating assets and liabilities		
Patient accounts receivable, net	(142,177)	308,667
Estimated amounts due from/to third-party payers	(165,000)	(215,000)
Supplies and prepaid expenses	(58,368)	(20,727)
Accounts payable and accrued expenses	28,697	122,122
Net cash provided by operating activities	$ 448,839	$ 55,048
Supplemental Cash Flows Information		
Transfers from County for facility improvements and equipment	$ 277,584	$ -
Capital lease obligation incurred for capital assets	$ -	$ 317,184
Capital assets acquisitions included in accounts payable	$ 19,876	$ 44,000

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

Nature of Operations and Reporting Entity

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the county commissioners. The Health Center consists of a hospital, long-term care unit, clinics and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

Basis of Accounting and Presentation

The financial statements of the Health Center 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 tax appropriations) 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 tax appropriations), interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center 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 Health Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Government Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Health Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those that were issued after November 30, 1989, that 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.

Cash Equivalents

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Intergovernmental Revenue

The Health Center received approximately 4% and 5% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2011 and 2010, respectively. One hundred percent of these funds were used to support operations 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 Health Center 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 commercial coverage in any of the three preceding years.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Health Center 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 Health Center analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center 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 (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Health Center's allowance for uncollectible accounts estimate at December 31, 2011, is based on 100% of account balances greater than 120 days outstanding from the date of discharge or service.

Supplies

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

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 Health Center:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in nonoperating revenues (expenses).

Unamortized Bond Costs

Unamortized bond costs represent costs incurred in connection with the issuance of bonds. Such costs are being amortized over the term of the respective bonds using the interest method.

Compensated Absences

Health Center 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 Health Center 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 Health Center, including amounts on deposit as required by the bond indenture. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above conditions.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center 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 Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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 Health Center's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrator Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health Center 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.

In 2011, the Health Center completed the first-year requirements under the Medicare and Medicaid program and has recorded revenue of approximately $391,000.

Income Taxes

As an essential government function of the County, the Health Center is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

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: 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 Health Center'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 acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2011 and 2010, none of the Health Center's deposits (checking and savings accounts and certificates of deposit) were exposed to custodial credit risk.

All certificates of deposit have maturities of one year or less and are reported at cost, which approximates fair value.

The carrying values of deposits at December 31, 2011 and 2010, are as follows:

	2011	2010
Carrying value		
Deposits	$ 1,486,120	$ 1,114,057
Petty cash	500	212
	$ 1,486,620	$ 1,114,269
Included in the following balance sheet captions		
Cash	$ 1,192,067	$ 846,201
Cash restricted for debt service	116,464	95,827
Noncurrent cash and certificate of deposit	178,089	172,241
	$ 1,486,620	$ 1,114,269

Note 3: Patient Accounts Receivable, Net/Net Patient Service Revenue

The Health Center 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 Health Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health Center uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health Center 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 as a component of net patient service revenue.

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

Medicare. The hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable costs subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare administrative contractor. The clinics are recognized as Rural Health Clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement is determined in a similar manner as for hospital services.

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 Health Center (excluding long-term care) and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports and reviews thereof by the Kansas Department of Health and Environment. The Health Center is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Health Center 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 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 for the Health Center relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), totaled approximately $46,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 45% and 41% of net patient service revenues 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 Health Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient accounts receivable are recorded net of an allowance for uncollectible accounts and an allowance for contractual adjustments at December 31, 2011 and 2010, as follows:

	2011	2010
Gross patient accounts receivable		
Medicare	$ 303,932	$ 365,408
Medicaid	86,315	72,249
Blue Cross	184,989	169,162
Other third-party payers	308,740	306,636
Self-pay	331,864	443,859
	1,215,840	1,357,314
Less:		
Allowance for uncollectible accounts	(221,950)	(398,684)
Allowance for contractual adjustments	(249,507)	(356,424)
Patient accounts receivable, net	$ 744,383	$ 602,206

Net patient service revenue for the years ended December 31, 2011 and 2010, were as follows:

	2011	2010
Gross patient service revenue	$ 8,173,696	$ 7,782,766
Contractual adjustments	(2,207,501)	(2,409,932)
Provision for uncollectible accounts	(112,154)	(416,174)
Administrative adjustments	(22,600)	(17,323)
Net patient service revenue	$ 5,831,441	$ 4,939,337

Note 4: Concentration of Credit Risk

The Health Center grants credit without collateral to its patients, most of whom are local area residents and are insured under third-party payer agreements. The mix of accounts receivable, net of allowance for doubtful accounts and contractual allowances at December 31, 2011 and 2010, were as follows:

	2011	2010
Medicare	26%	28%
Medicaid	4%	5%
Blue Cross	17%	17%
Other third-party payers	38%	42%
Self-pay	15%	8%
	100%	100%

Note 5: Capital Assets

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

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	$ 70,888	$ -	$ -	$ 70,888
Buildings	7,186,406	9,266	(7,393)	7,188,279
Fixed equipment	956,699	-	(58,730)	897,969
Moveable equipment	1,280,215	440,357	(26,927)	1,693,645
Construction in progress	-	20,874	-	20,874
	9,494,208	470,497	(93,050)	9,871,655
Less accumulated depreciation				
Land improvements	38,896	3,561	-	42,457
Buildings	1,896,632	207,937	(7,393)	2,097,176
Fixed equipment	272,534	85,247	(58,730)	299,051
Moveable equipment	802,454	157,223	(26,927)	932,750
	3,010,516	453,968	(93,050)	3,371,434
Capital assets, net	$ 6,483,692	$ 16,529	$ -	$ 6,500,221

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	$ 70,888	$ -	$ -	$ 70,888
Buildings	7,186,406	-	-	7,186,406
Fixed equipment	897,079	415,466	(355,846)	956,699
Moveable equipment	1,207,672	72,543	-	1,280,215
	9,362,045	488,009	(355,846)	9,494,208
Less accumulated depreciation				
Land improvements	35,336	3,560	-	38,896
Buildings	1,681,543	215,089	-	1,896,632
Fixed equipment	446,945	83,156	(257,567)	272,534
Moveable equipment	678,588	123,866	-	802,454
	2,842,412	425,671	(257,567)	3,010,516
Capital assets, net	$ 6,519,633	$ 62,338	$ (98,279)	$ 6,483,692

Note 6: Long-term Debt

The following is a summary of long-term obligation transactions for the Health Center for the years ended December 31, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 650,000	$ -	$ 55,000	$ 595,000	$ 60,000
Note payable - city	9,266	-	3,530	5,736	3,602
Capital lease obligations	451,630	-	73,969	377,661	58,425
Total long-term debt	$ 1,110,896	$ -	$ 132,499	$ 978,397	$ 122,027

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 705,000	$ -	$ 55,000	$ 650,000	$ 55,000
Note payable - city	12,726	-	3,460	9,266	3,530
Capital lease obligations	213,850	317,184	79,404	451,630	73,969
Total long-term debt	$ 931,576	$ 317,184	$ 137,864	$ 1,110,896	$ 132,499

Revenue Bonds Payable

Revenue bonds payable consists of Limited Care Residential Facility Revenue Bonds (Bonds) in the original amount of $1,100,000 dated March 1, 1999, with remaining interest rates of 5.5% and 5.7%. The Bonds are payable in annual installments of principal and interest through March 1, 2019. The Bonds are payable solely from the net revenues of the Health Center and cash and certificates of deposit restricted for debt service. The Bonds do not constitute a general obligation of the County.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	$ 91,875	$ 60,000	$ 31,875
2013	93,437	65,000	28,437
2014	94,725	70,000	24,725
2015	90,805	70,000	20,805
2016	91,673	75,000	16,673
2017 - 2019	277,373	255,000	22,373
	$ 739,888	$ 595,000	$ 144,888

Cash and certificates of deposit relative to the Bonds at December 31, 2011 and 2010, are summarized as follows:

	2011	2010
Principal and interest fund	$ 116,464	$ 95,827
Bond reserve fund	117,749	116,838
Depreciation replacement fund	60,340	55,403
	294,553	268,068
Less current portion	116,464	95,827
	$ 178,089	$ 172,241

Note Payable – City

The note payable – city consists of an agreement with the City of Jetmore due July 2013, with monthly payments of $307 including interest at 2%.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	$ 3,684	$ 3,602	$ 82
2013	2,148	2,134	14
	$ 5,832	$ 5,736	$ 96

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Health Center. Assets under capital leases at December 31, 2011 and 2010, totaled $359,069 and $433,199, respectively, net of accumulated depreciation of $81,517 and $80,969, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates approximating 6% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	$ 76,017
2013	74,520
2014	74,520
2015	74,520
2016	74,520
2017-2019	62,099
Total minimum lease payments	436,196
Less amount representing interest	58,535
Present value of future minimum lease payments	$ 377,661

Note 7: Medical Malpractice Coverage and Claims

The Health Center 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 $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 Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 8: Defined Contribution Plan

The Health Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. 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 Health Center's governing body. The Health Center's contribution rate was 3% for both 2011 and 2010. Contributions actually made by plan members and the Health Center aggregated $91,612 and $44,388 for 2011 and $80,424 and $42,897 for 2010, respectively.

Note 9: 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 *3*.

Current Economic Conditions

The current protracted economic environment presents health care providers with difficult circumstances and challenges, which in some cases have resulted in large 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 Health Center.

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 Health Center'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 Health Center's ability to maintain sufficient liquidity.