

JEWELL COUNTY HOSPITAL  
A Component Unit of Jewell County, Kansas

Financial Statements

Years Ended December 31, 2011 and 2010

(With Independent Auditor's Report Thereon)

JEWELL COUNTY HOSPITAL  
A Component Unit of Jewell County, Kansas

Index

Years Ended December 31, 2011 and 2010

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Independent Auditor's Report

The Board of Trustees  
Jewell County Hospital  
Mankato, Kansas:

We have audited the accompanying balance sheet of Jewell County Hospital, a component unit of Jewell County, Kansas, as of December 31, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Jewell County Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Jewell County Hospital as of and for the year ended December 31, 2010 were audited by other accountants whose report dated June 9, 2011 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 Jewell County Hospital as of December 31, 2011, and the results of its operations, changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jewell County Hospital has not presented a management's discussion and analysis as required by accounting principles generally accepted in the United States of America to supplement, although not required to be a part of, the basic financial statements.

*Dohman, Akerlund & Eddy, LLC*

June 26, 2012

JEWELL COUNTY HOSPITAL  
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Balance Sheets

December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 46,236	45,053
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of \$37,655 in 2011 and \$(78,540) in 2010	534,316	342,961
Other receivables	4,499	20,791
Inventories	31,823	32,340
Prepaid expenses	19,252	7,840
Estimated third-party payor settlements	<u>-</u>	<u>160,000</u>
Total current assets	<u>636,126</u>	<u>608,985</u>
Noncurrent cash and investments:		
Internally designated	609,317	491,577
Restricted by grantors	<u>8,161</u>	<u>6</u>
Total noncurrent cash and investments	<u>617,478</u>	<u>491,583</u>
Capital assets	2,586,457	2,484,686
Less accumulated depreciation	<u>1,975,043</u>	<u>2,004,042</u>
Net capital assets	<u>611,414</u>	<u>480,644</u>
	<u>\$ 1,865,018</u>	<u>1,581,212</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Assets</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current maturities of capital lease obligations	\$ 41,286	19,179
Accounts payable and payroll withholding	110,056	167,190
Accrued expenses - salaries, wages and benefits	160,494	151,039
Estimated third-party payor settlements	49,248	-
Total current liabilities	<u>361,084</u>	<u>337,408</u>
Capital lease obligations, excluding current maturities	<u>135,937</u>	<u>69,131</u>
Total liabilities	<u>497,021</u>	<u>406,539</u>
Net assets:		
Invested in capital assets, net of related debt	434,191	392,334
Restricted - expendable for specific operating activities	8,161	6
Unrestricted	<u>925,645</u>	<u>782,333</u>
Total net assets	1,367,997	1,174,673
	<u>\$ 1,865,018</u>	<u>1,581,212</u>

JEWELL COUNTY HOSPITAL  
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Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient and resident service revenue	\$ 3,475,798	3,085,094
Other revenue	<u>93,250</u>	<u>95,434</u>
Total operating revenues	<u>3,569,048</u>	<u>3,180,528</u>
Operating expenses:		
Salaries and wages	2,163,400	2,114,573
Supplies and other	1,639,491	1,674,188
Depreciation	69,101	79,281
Interest	<u>5,734</u>	<u>6,634</u>
Total operating expenses	<u>3,877,726</u>	<u>3,874,676</u>
Operating loss	<u>(308,678)</u>	<u>(694,148)</u>
Nonoperating revenues and expenses:		
Property tax revenue	438,527	441,501
Farm rental income	25,034	41,583
Interest income	6,424	2,514
Gain on disposition of land and equipment	4,500	222,245
Noncapital grants and contributions	<u>27,517</u>	<u>41,723</u>
Total nonoperating revenues and expenses	<u>502,002</u>	<u>749,566</u>
Excess of revenues over expenses	193,324	55,418
Net assets, beginning of year	<u>1,174,673</u>	<u>1,119,255</u>
Net assets, end of year	<u>\$ 1,367,997</u>	<u>1,174,673</u>

See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL  
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Statements of Cash Flows

Years Ended December 31, 2011 and 2010

<u>Increase in Cash</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received:		
Patients, residents and third-parties	\$ 3,509,983	3,002,328
Other revenue	93,250	86,513
Cash paid to employees	(2,153,945)	(2,098,455)
Cash paid to suppliers	<u>(1,754,170)</u>	<u>(1,532,326)</u>
Net cash used by operating activities	<u>(304,882)</u>	<u>(541,940)</u>
Cash flows from noncapital financing activities:		
Property taxes received	432,050	441,501
Noncapital grants and contributions received	<u>27,517</u>	<u>44,233</u>
Net cash provided by noncapital financial activities	<u>459,567</u>	<u>485,734</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(43,221)	-
Principal payments on capital lease obligations	(21,087)	(18,308)
Proceeds from sale of capital assets	4,500	-
Interest paid	<u>(5,734)</u>	<u>(6,634)</u>
Net cash used by capital and related financing activities	<u>(65,542)</u>	<u>(24,942)</u>
Cash flows from investing activities:		
Net change in noncurrent cash and investments	(119,418)	63,823
Interest income received	6,424	2,514
Farm rental income received	<u>25,034</u>	<u>20,792</u>
Net cash provided (used) by investing activities	<u>(87,960)</u>	<u>87,129</u>
Net increase in cash and cash equivalents	1,183	5,981
Cash at beginning of year	<u>45,053</u>	<u>39,072</u>
Cash at end of year	<u>\$ 46,236</u>	<u>45,053</u>

(Continued)

JEWELL COUNTY HOSPITAL  
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Statements of Cash Flows  
(Continued)  
Years Ended December 31, 2011 and 2010

<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	<u>2011</u>	<u>2010</u>
Operating loss	\$ (308,678)	(694,148)
Interest expense considered capital financing activity	5,734	6,634
Adjustment to reconcile operating loss to net cash used by operating activities:		
Depreciation	69,101	79,281
Provision for bad debts	84,554	51,954
Decrease (increase) in:		
Patient and resident accounts receivable	(275,909)	(28,641)
Other receivables	16,292	14,583
Inventories	517	1
Prepaid expenses	(11,412)	12,951
Estimated third-party payor settlements	160,000	(115,000)
Increase (decrease) in:		
Accounts payable and payroll withholding	(103,784)	116,884
Accrued expenses - salaries, wages and benefits	9,455	13,561
Estimated third-party payor settlements	49,248	-
Net cash used by operating activities	<u>\$ (304,882)</u>	<u>(541,940)</u>

Supplemental Disclosures of Cash Flows Information

Capital asset additions		
acquired with capital lease obligations	\$ 110,000	-
Capital asset additions included in accounts payable	<u>46,650</u>	<u>-</u>

See accompanying notes to financial statements.

JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

December 31, 2011 and 2010

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Jewell County Hospital (the Hospital), a political subdivision of the State of Kansas, located in Mankato, Kansas, provides acute, long-term care, clinic and independent living (apartments) services. The Hospital is a component unit of Jewell County, Kansas (the County) and is governed by a Board of Trustees (the Board), appointed by the Jewell County Board of County Commissioners.

Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as tax appropriations), and interest income are included in nonoperating revenues and expenses.

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 that were issued after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of estimates

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

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

Cash and cash equivalents and statements of cash flows

For purposes of the statements of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010. Additionally, all components within the statements of cash flows are presented on the gross basis with the exception of assets whose use is limited which is presented on the net basis.

Intergovernmental revenue

The Hospital received approximately 12% and 11% 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 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.

Patient accounts receivable and allowance for uncollectibles

The Hospital reports patient accounts receivable for the services rendered at net realizable amounts from third-party payors, 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. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. As a result, there is at least a reasonable possibility the recorded estimates will change by a material amount in the near term.

Inventories

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

Capital assets

The Hospital's capital assets are reported at historical cost less accumulated depreciation. Contributed capital assets are reported at their estimated fair value at the time of their donation. Major renewals and improvements that exceed \$5,000 are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the useful life of the respective assets are charged to expense as incurred. All capital assets other than land are depreciated or amortized over the estimated useful lives of the respective assets on the straight-line method. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized. Interest cost incurred on borrowing funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized in either 2011 or 2010.

	<u>Life in Years</u>
Land improvements	15-20
Buildings and improvements	10-40
Fixed equipment	5-20
Moveable equipment	<u>3-20</u>

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Net assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets, net of related debt* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

Operating revenues and expenses

The Hospital's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates.

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

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, they are not reported as revenue.

The Hospital estimates the costs associated with providing services under its charity care policy was \$26,137 for the year ended December 31, 2011 and \$73,050 for the year ended December 31, 2010. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient service revenue) to the gross charges forgone under its charity care policy.

Grants and contributions

The Hospital generally receives grants and contributions from various agencies, private organizations, and individuals. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

Income taxes

As an essential government entity, the Hospital is generally exempt from federal and state taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Compensated absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Accumulated PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. The maximum amount of hours to be carried forward is 480. PTO benefits are expensed and accrued as earned under the Hospital's PTO policy, with the vested amount recorded as a current accrued liability. Compensated absence liabilities are computed using regular pay rates for PTO in effect at the balance sheet date.

Investment income

Investment income is reported as nonoperating income. Investment income on donor-restricted assets which is not donor-restricted is recorded as nonoperating income. Investment income on donor-restricted assets which is donor-restricted is added to restricted fund balance.

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; and natural disasters, medical malpractice and employee health 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.

Estimated malpractice costs

The provision for estimated medical malpractice claims, if any, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

(2) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital is designated as a Critical Access Hospital which generally allows cost-based reimbursement for both Medicare and Medicaid hospital services. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** Inpatient acute, inpatient nonacute (swing-bed), and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Other outpatient, including clinic services, related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through December 31, 2010.
- **Medicaid.** The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital with audits thereof by the Medicaid Administrative Contractor.

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 Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 65% and 67% of net patient service revenues for the years ended December 31, 2011 and 2010, respectively, are from combined participation in the Medicare and Medicaid programs. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations under which the basis for payment to the Hospital includes prospectively determined rates per discharge and discounts from established charges.

A summary of net patient and resident service revenue is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ <u>3,241,481</u>	<u>3,037,192</u>
Discounts, allowances, contractual adjustments, charity care, and provision for bad debts:		
Discounts, allowances, and other contractual adjustments	(185,636)	(211,673)
Medicare and Medicaid	532,315	368,339
Charity care	(27,808)	(56,810)
Provision for bad debts	<u>(84,554)</u>	<u>(51,954)</u>
Total discounts, allowances, contractual adjustments, charity care, and provision for bad debts	<u>234,317</u>	<u>47,902</u>
Net patient and resident service revenue	\$ <u>3,475,798</u>	<u>3,085,094</u>

(3) Cash and Investments

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

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

The Hospital's bank deposits at December 31, 2011 were entirely insured by federal depository insurance or collateralized by securities held by the financial institution, or its agent, in the Hospital's name.

The Hospital's cash and investments at December 31, 2011 and 2010 consisted of cash, checking accounts, savings accounts, and funds held by the Jewell County Treasurer recorded at cost which approximates market.

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Notes to Financial Statements

The carrying amounts of deposits are included in the Hospital's balance sheet captions as follows at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash	\$ 45,761	44,578
Noncurrent cash and investments	<u>175,600</u>	<u>56,743</u>
	<u>\$ 221,361</u>	<u>101,321</u>

The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

(4) Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are insured under Medicare and Medicaid third-party payor agreements.

Patient accounts receivable reported as current assets at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Receivable from patients and their insurance carriers	\$ 243,645	214,986
Receivable from Medicare	213,404	176,255
Receivable from Medicaid	<u>39,612</u>	<u>30,260</u>
Total patient accounts receivable	<u>496,661</u>	<u>421,501</u>
Plus (less) allowances for:		
Contractual adjustments	82,000	(26,592)
Uncollectible accounts	<u>(44,345)</u>	<u>(51,948)</u>
Total allowances	<u>37,655</u>	<u>(78,540)</u>
Net patient accounts receivable	<u>\$ 534,316</u>	<u>342,961</u>

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

(5) Noncurrent Cash and Investments

Noncurrent cash and investments include 1) funds internally designated by the Board of Trustees and 2) assets restricted by grantors. Board designated assets represent those assets over which the Board retains control and may designate, at its discretion, for a specific purpose. Grant funds are restricted for specific purposes, as determined by the grantor.

Noncurrent cash and investments at December 31, 2011 and 2010 were comprised of the following:

	<u>2011</u>	<u>2010</u>
Farmland	\$ 184,232	184,232
Money market account	167,439	56,737
Cash held by Jewell County Treasurer	232,727	232,166
Property taxes receivable	24,919	18,442
Money market account - grant funds	<u>8,161</u>	<u>6</u>
Total noncurrent cash and investments	<u>\$ 617,478</u>	<u>491,583</u>

The Hospital sold a portion of the farmland during 2010. The gain on the sale of \$222,652 is included as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net assets.

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JEWELL COUNTY HOSPITAL  
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Notes to Financial Statements

(6) Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2011 and 2010 were as follows:

	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
<u>Historical costs</u>				
Land and improvements	\$ 108,502	-	-	108,502
Buildings and improvements	1,179,141	-	-	1,179,141
Fixed equipment	351,200	6,971	(2,100)	356,071
Moveable equipment	845,843	110,000	(96,000)	859,843
Construction in progress	<u>-</u>	<u>82,900</u>	<u>-</u>	<u>82,900</u>
Total historical costs	<u>2,484,686</u>	<u>199,871</u>	<u>(98,100)</u>	<u>2,586,457</u>
<u>Less accumulated depreciation</u>				
Land and improvements	(39,511)	(5,912)	-	(45,423)
Buildings and improvements	(931,947)	(27,725)	-	(959,672)
Fixed equipment	(268,784)	(11,370)	2,100	(278,054)
Moveable equipment	<u>(763,800)</u>	<u>(24,094)</u>	<u>96,000</u>	<u>(691,894)</u>
Total accumulated depreciation	<u>(2,004,042)</u>	<u>(69,101)</u>	<u>98,100</u>	<u>(1,975,043)</u>
Net capital assets	<u>\$ 480,644</u>	<u>130,770</u>	<u>-</u>	<u>611,414</u>

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Notes to Financial Statements

	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>
<u>Historical costs</u>				
Land and improvements	\$ 108,781	-	(279)	108,502
Buildings and improvements	1,180,703	-	(1,562)	1,179,141
Fixed equipment	353,302	-	(2,102)	351,200
Moveable equipment	<u>862,478</u>	<u>-</u>	<u>(16,635)</u>	<u>845,843</u>
Total historical costs	<u>2,505,264</u>	<u>-</u>	<u>(20,578)</u>	<u>2,484,686</u>
<u>Less accumulated depreciation</u>				
Land and improvements	(33,879)	(5,911)	279	(39,511)
Buildings and improvements	(904,716)	(28,504)	1,273	(931,947)
Fixed equipment	(259,631)	(11,255)	2,102	(268,784)
Moveable equipment	<u>(746,706)</u>	<u>(33,611)</u>	<u>16,517</u>	<u>(763,800)</u>
Total accumulated depreciation	<u>(1,944,932)</u>	<u>(79,281)</u>	<u>20,171</u>	<u>(2,004,042)</u>
Net capital assets	<u>\$ 560,332</u>	<u>(79,281)</u>	<u>(407)</u>	<u>480,644</u>

Construction in progress includes costs associated with the addition of a fire sprinkler system in the amount of \$54,460 which was placed in service on January 1, 2012. The remaining \$28,440 in construction in progress was for a bone density scanner which had not yet been placed into service as of December 31, 2011.

(7) Capital Lease Obligations

A schedule of changes in the Hospital's capital lease obligations for the years ended December 31, 2011 and 2010 is as follows:

	<u>2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 74,253	-	(15,740)	58,513	16,538
Capital lease payable (b)	12,121	-	(2,710)	9,411	3,219
Capital lease payable (c)	1,936	-	(957)	979	979
Capital lease payable (d)	<u>-</u>	<u>110,000</u>	<u>(1,680)</u>	<u>108,320</u>	<u>20,550</u>
Total capital lease obligations	88,310	<u>110,000</u>	<u>(21,087)</u>	177,223	<u>41,286</u>
Less current installments	<u>19,179</u>			<u>41,286</u>	
Capital lease obligations, excluding current installments	<u>\$ 69,131</u>			<u>135,937</u>	

(Continued)

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Notes to Financial Statements

	<u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010</u>	<u>Current Portion</u>
Capital lease payable (a)	\$ 89,210	-	(14,957)	74,253	15,740
Capital lease payable (b)	14,622	-	(2,501)	12,121	2,482
Capital lease payable (c)	<u>2,786</u>	<u>-</u>	<u>(850)</u>	<u>1,936</u>	<u>957</u>
Total capital lease obligations	106,618	<u>-</u>	<u>(18,308)</u>	88,310	<u>19,179</u>
Less current installments	<u>18,524</u>			<u>19,179</u>	
Capital lease obligations, excluding current installments	<u>\$ 88,094</u>			<u>69,131</u>	

The terms and due dates of the Hospital's capital lease obligations at December 31, 2011 are as follows:

- (a) Capital lease obligation, due in monthly installments of \$1,591, including interest at 5.00%; secured by X-Ray equipment having an original cost basis of \$126,281 and net book value of \$10,830 at December 31, 2011.
- (b) Capital lease obligation, due in monthly installments of \$306, including interest at an imputed rate of 8.81%; secured by a folding and copying machine having an original cost basis of \$15,384 and net book value of \$7,948 at December 31, 2011.
- (c) Capital lease obligation, due in monthly installments of \$95, including interest at an imputed rate of 11.81%; secured by an ice machine having an original cost basis of \$2,853 and net book value of \$2,259 at December 31, 2011.
- (d) Capital lease obligation, due in monthly installments of \$2,001, including interest at 3.50%; secured by a chemistry analyzer having an original cost basis and net book value of \$110,000 at December 31, 2011.

Scheduled principal and interest repayments on capital lease obligations are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 41,286	6,839
2013	41,927	4,852
2014	43,258	2,909
2015	29,121	1,258
2016	<u>21,631</u>	<u>380</u>
Total	<u>\$ 177,223</u>	<u>16,238</u>

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(8) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) which provides \$200,000 of coverage per occurrence and \$600,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

(9) Deferred Compensation

The Hospital maintains a matching deferred compensation plan for all eligible employees. Eligibility is established by all employees who have completed one year of continuous service. Full-time employees may contribute up to 4% of their gross compensation per year. Part-time employees may contribute up to 2% of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25% of their gross compensation or \$16,500. The Hospital matches employee contributions up to 4% and 2% of eligible compensation for full-time and part-time employees, respectively. Employer and employee contributions vest immediately. Benefits are funded by fixed and variable annuities with an insurance company. Contributions actually made by employees totaled \$51,406 and \$53,835 in 2011 and 2010, respectively. Hospital contributions totaled \$41,190 and \$41,894 in 2011 and 2010, respectively.

(10) Reclassification

The Hospital's 2010 financial statements have been reclassified to conform with 2011 presentation.