

**Lane County Hospital**  
**A Component Unit of Lane County, Kansas**

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



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

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## Independent Accountants' Report

Board of Trustees  
Lane County Hospital  
Dighton, Kansas

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

Management has omitted 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 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 15, 2012

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

**Assets**

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash	\$ 314,768	\$ 291,485
Patient accounts receivable, net of allowance; 2011 – \$198,595, 2010 – \$170,702	513,814	433,010
Estimated amounts due from third-party payers	-	151,000
Supplies	61,223	63,269
Prepaid expenses and other	<u>50,151</u>	<u>45,553</u>
Total current assets	<u>939,956</u>	<u>984,317</u>
 <b>Noncurrent Cash and Investments</b>		
Board designated for capital acquisitions	118,246	274,633
Restricted by donors for specific operating activities	<u>7,161</u>	<u>1,000</u>
	<u>125,407</u>	<u>275,633</u>
 <b>Capital Assets, Net</b>	<u>897,511</u>	<u>997,980</u>
 <b>Other Assets</b>	<u>145,380</u>	<u>145,380</u>
Total assets	<u><u>\$ 2,108,254</u></u>	<u><u>\$ 2,403,310</u></u>

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 32,821	\$ 29,552
Accounts payable	95,808	104,346
Accrued salaries and wages	129,090	136,214
Accrued vacation	113,332	103,422
Other accrued expenses	71,476	70,756
Estimated amounts due to third-party payers	70,000	-
	<hr/>	<hr/>
Total current liabilities	512,527	444,290
	<hr/>	<hr/>
<b>Long-term Debt</b>	91,901	102,981
	<hr/>	<hr/>
Total liabilities	604,428	547,271
	<hr/>	<hr/>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	772,789	865,447
Restricted - expendable for		
Specific operating activities	7,161	1,000
Unrestricted	723,876	989,592
	<hr/>	<hr/>
Total net assets	1,503,826	1,856,039
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 2,108,254</u>	<u>\$ 2,403,310</u>

**Lane County Hospital**  
**A Component Unit of Lane 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	\$ 3,740,436	\$ 3,526,968
Outside services revenue	47,152	49,070
Other	<u>40,044</u>	<u>39,266</u>
Total operating revenues	<u>3,827,632</u>	<u>3,615,304</u>
<b>Operating Expenses</b>		
Salaries and wages	2,159,682	2,072,512
Supplies and other	2,101,233	2,086,953
Depreciation	<u>187,420</u>	<u>227,224</u>
Total operating expenses	<u>4,448,335</u>	<u>4,386,689</u>
<b>Operating Loss</b>	<u>(620,703)</u>	<u>(771,385)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	100,000	-
Investment income	4,614	8,509
Interest expense	(7,314)	(5,827)
Noncapital grants and gifts	37,903	14,423
Noncapital appropriations - Lane County	<u>100,000</u>	<u>-</u>
Total nonoperating revenues	<u>235,203</u>	<u>17,105</u>
<b>Deficiency of Revenues Over Expenses Before Capital Grants and Gifts</b>	(385,500)	(754,280)
<b>Capital Grants and Gifts</b>	<u>33,287</u>	<u>-</u>
<b>Decrease in Net Assets</b>	(352,213)	(754,280)
<b>Net Assets, Beginning of Year</b>	<u>1,856,039</u>	<u>2,610,319</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,503,826</u>	<u>\$ 1,856,039</u>

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

	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients and third-party payers	\$ 3,880,632	\$ 3,429,377
Payments to suppliers	(2,112,323)	(2,090,050)
Payments to and on behalf of employees	(2,156,176)	(2,060,492)
Other receipts, net	87,196	88,336
Net cash used in operating activities	(300,671)	(632,829)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	100,000	-
Noncapital appropriations - Lane County	100,000	-
Noncapital grants and gifts	37,903	14,423
Net cash provided by noncapital financing activities	237,903	14,423
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	33,287	-
Principal paid on long-term debt	(29,552)	(17,931)
Interest payments on long-term debt	(7,314)	(5,827)
Purchases of capital assets	(65,210)	-
Net cash used in capital and related financing activities	(68,789)	(23,758)
<b>Investing Activities</b>		
Change in investments	160,384	371,480
Investment income	4,614	8,509
Net cash provided by investing activities	164,998	379,989
<b>Increase (Decrease) in Cash</b>	33,441	(262,175)
<b>Cash, Beginning of Year</b>	293,647	555,822
<b>Cash, End of Year</b>	\$ 327,088	\$ 293,647
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 314,768	\$ 291,485
Cash in noncurrent cash and investments	12,320	2,162
Total cash	\$ 327,088	\$ 293,647

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

	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (620,703)	\$ (771,385)
Depreciation	187,420	227,224
Provision for uncollectible accounts	102,231	102,784
Changes in operating assets and liabilities		
Patient accounts receivable	(183,035)	(163,375)
Estimated amounts due from and to third-party payers	221,000	(37,000)
Supplies	2,046	9,256
Prepaid expenses and other	(4,598)	(24,346)
Accounts payable and accrued expenses	(5,032)	24,013
	\$ (300,671)	\$ (632,829)
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ 21,741	\$ 77,454

**Lane County Hospital**  
**A Component Unit of Lane 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***

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an elected Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County area.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as property taxes, investments income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those that were issued on and 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.

***Cash Equivalents***

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

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

***Property Taxes***

The Hospital received approximately 2% in 2011 of its financial support from property taxes.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

***Risk Management***

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

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. 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 amounts have been accrued related to claims for this plan.

***Investments and Investment Income***

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Noncurrent cash and investments primarily consist of funds internally designated by the Board for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Noncurrent cash and investments also includes funds restricted by donors for specific operating activities.

Investment income includes interest income on investments carried at other than fair value.

***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.

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

**Capital Assets**

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

Land improvements	5-50 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

**Net Assets**

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding 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 grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, restricted expendable or restricted nonexpendable.

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

***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

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

***Income Taxes***

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

***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 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.

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

At December 31, 2011 and 2010, respectively, \$73,644 and \$88,469 of the Hospital's bank balances of \$430,050 and \$587,307 were exposed to custodial credit risk as follows:

	<b>2011</b>	<b>2010</b>
Collateral held by pledging financial institution in the Hospital's name	\$ 73,644	\$ 88,469

**Summary of Carrying Values**

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

	<b>2011</b>	<b>2010</b>
Carrying value		
Deposits	\$ 439,975	\$ 566,918
Petty cash	200	200
	\$ 440,175	\$ 567,118
Included in the following balance sheet captions		
Cash	\$ 314,768	\$ 291,485
Board designated for capital acquisitions	118,246	274,633
Restricted by donors for specific operating activities	7,161	1,000
	\$ 440,175	\$ 567,118

**Note 3: Net Patient Service Revenue**

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

*Medicare.* The Hospital is licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

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*Medicaid.* The Medicaid state plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Hospital and reviews thereof by the Kansas Department of Health and Environment. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network. 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 relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$55,000 and are included in the 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 68% and 72% 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 Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Net patient service revenue for the years ended December 31 is as follows:

	<b>2011</b>	<b>2010</b>
Gross patient service revenue	\$ 4,056,856	\$ 3,715,257
Contractual adjustments:		
Medicare	128,744	234,129
Medicaid	(283)	2,943
Blue Cross	(229,618)	(192,774)
Other	(92,235)	(116,908)
Charity care	(14,608)	(10,138)
Administrative discounts	(6,189)	(2,757)
Provision for uncollectible accounts	(102,231)	(102,784)
	<u>\$ 3,740,436</u>	<u>\$ 3,526,968</u>

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

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 230,885	\$ 152,846
Medicaid	30,994	42,645
Blue Cross	57,895	61,228
Other third-party payers	48,795	50,636
Self-pay	316,801	304,972
	<u>685,370</u>	<u>612,327</u>
Less allowance for contractual adjustments	27,039	(8,615)
Less allowance for uncollectible accounts	<u>(198,595)</u>	<u>(170,702)</u>
	<u>\$ 513,814</u>	<u>\$ 433,010</u>

The mix of gross patient accounts receivables from patient and third-party payers at December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	34%	25%
Medicaid	5%	7%
Blue Cross	8%	10%
Other third-party payers	7%	8%
Self-pay	<u>46%</u>	<u>50%</u>
	<u>100%</u>	<u>100%</u>

**Lane 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 was:

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 29,188	\$ -	\$ -	\$ 29,188
Land improvements	13,720	49,397	-	63,117
Buildings	2,311,062	15,813	(9,213)	2,317,662
Fixed equipment	724,111	-	-	724,111
Major moveable equipment	1,218,979	21,741	(10,721)	1,229,999
	<u>4,297,060</u>	<u>86,951</u>	<u>(19,934)</u>	<u>4,364,077</u>
Less accumulated depreciation				
Land improvements	12,990	2,963	-	15,953
Buildings	1,654,358	107,746	(9,213)	1,752,891
Fixed equipment	628,966	13,948	-	642,914
Major moveable equipment	1,002,766	62,763	(10,721)	1,054,808
	<u>3,299,080</u>	<u>187,420</u>	<u>(19,934)</u>	<u>3,466,566</u>
Capital Assets, Net	<u>\$ 997,980</u>	<u>\$ (100,469)</u>	<u>\$ -</u>	<u>\$ 897,511</u>
	<b>2010</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 29,188	\$ -	\$ -	\$ 29,188
Land improvements	13,720	-	-	13,720
Buildings	2,311,473	-	(411)	2,311,062
Fixed equipment	725,569	-	(1,458)	724,111
Major moveable equipment	1,173,136	77,456	(31,613)	1,218,979
	<u>4,253,086</u>	<u>77,456</u>	<u>(33,482)</u>	<u>4,297,060</u>
Less accumulated depreciation				
Land improvements	11,793	1,197	-	12,990
Buildings	1,541,038	113,731	(411)	1,654,358
Fixed equipment	579,214	51,210	(1,458)	628,966
Major moveable equipment	973,293	61,086	(31,613)	1,002,766
	<u>3,105,338</u>	<u>227,224</u>	<u>(33,482)</u>	<u>3,299,080</u>
Capital Assets, Net	<u>\$ 1,147,748</u>	<u>\$ (149,768)</u>	<u>\$ -</u>	<u>\$ 997,980</u>

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

**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: Long-term Obligations**

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

		<b>2011</b>						
		<b>Beginning</b>				<b>Ending</b>	<b>Current</b>	<b>Long-term</b>
		<b>Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b>	<b>Portion</b>	<b>Portion</b>	
Capital lease obligations		<u>\$ 132,533</u>	<u>\$ 21,741</u>	<u>\$ 29,552</u>	<u>\$ 124,722</u>	<u>\$ 32,821</u>	<u>\$ 91,901</u>	
		<b>2010</b>						
		<b>Beginning</b>				<b>Ending</b>	<b>Current</b>	<b>Long-term</b>
		<b>Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b>	<b>Portion</b>	<b>Portion</b>	
Capital lease obligations		<u>\$ 73,010</u>	<u>\$ 77,454</u>	<u>\$ 17,931</u>	<u>\$ 132,533</u>	<u>\$ 29,552</u>	<u>\$ 102,981</u>	

**Lane County Hospital**  
**A Component Unit of Lane County, Kansas**  
**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 leases for the years ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 172,205	\$ 150,464
Accumulated depreciation	<u>(56,847)</u>	<u>(25,081)</u>
	<u>\$ 115,358</u>	<u>\$ 125,383</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 4.50% to 8.00% together with the present value of the future minimum lease payments as of December 31:

	<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>
Year Ending December 31,		
2012	\$ 32,821	\$ 7,209
2013	34,872	5,158
2014	32,063	3,067
2015	9,921	1,452
2016	2,035	1,130
2017 - 2021	<u>13,010</u>	<u>2,818</u>
	<u>\$ 124,722</u>	<u>\$ 20,834</u>

**Note 8: Pension Plan**

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who are at least 18 years of age and have completed one or more hours of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The employer also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$70,842 and \$70,842 during 2011 and \$67,669 and

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\$69,718 during 2010, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of the death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$23,121 and \$17,554 during 2011 and 2010, respectively. The plan year begins on January 1 and ends December 31.

**Note 9: Management/Services Agreement**

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year- to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2011 and 2010, were \$208,211 and \$182,620, respectively.

Amounts due to GPHA at December 31, 2011 and 2010, totaled \$7,031 and \$10,929, respectively.

**Note 10: Risks and Uncertainties**

***Current Economic Conditions***

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

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

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