

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SEDAN CITY HOSPITAL
SEPTEMBER 30, 2011 AND 2010

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	6
SUPPLEMENTAL INFORMATION	
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTAL INFORMATION	15
PATIENT SERVICE REVENUE	16
OTHER REVENUE	17
OPERATING EXPENSES BY FUNCTIONAL DIVISION	18



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Sedan City Hospital

We have audited the accompanying basic financial statements of Sedan City Hospital ("Hospital"), as of and for the year ended September 30, 2011, as listed in the table of contents. 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 audit. The financial statements of Sedan City Hospital as of September 30, 2010, were audited by other auditors whose report dated March 15, 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. These 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. 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 previously present fairly, in all material respects, the financial position of Sedan City Hospital as of September 30, 2011, and the respective results of operations, changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The 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 part of, the basic financial statements.

Topeka, Kansas
March 24, 2012

FINANCIAL STATEMENTS

SEDAN CITY HOSPITAL

BALANCE SHEETS

September 30,

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 177,938	\$ 120,969
Restricted cash	71,771	71,297
Patient accounts receivable, net of allowance for doubtful accounts of \$208,265 in 2011 and \$201,146 in 2010	494,478	240,867
Other receivables		717
Sales tax receivable	31,397	31,397
Inventories	108,222	111,229
Prepaid expenses	35,355	21,158
Estimated third-party payor settlements	<u>72,183</u>	
Total current assets	<u>991,344</u>	<u>597,634</u>
CAPITAL ASSETS		
Land	2,100	2,100
Depreciable capital assets, net	<u>764,898</u>	<u>348,270</u>
Total capital assets, net	<u>766,998</u>	<u>350,370</u>
OTHER ASSETS		
	<u>9,500</u>	<u>11,304</u>
	<u>\$ 1,767,842</u>	<u>\$ 959,308</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Current maturities of capital leases payable	\$ 92,175	\$ 3,101
Note payable		20,000
Accounts payable	343,241	369,946
Accrued expenses		
Salaries and related benefits	77,217	59,254
Vacation	62,506	36,815
Other	18,005	13,158
Estimated third-party payor settlements		142,050
	593,144	644,324
CAPITAL LEASE PAYABLE, net of current maturities	386,188	
Total liabilities	979,332	644,324
NET ASSETS		
Invested in capital assets - net of related debt	288,635	347,269
Unrestricted	499,875	(32,285)
	788,510	314,984
Total net assets	\$ 1,767,842	\$ 959,308

SEDAN CITY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended September 30,

	<u>2011</u>	<u>2010</u>
Operating revenues		
Net patient service revenue	\$ 3,480,458	\$ 2,256,212
Other	<u>28,102</u>	<u>27,452</u>
Total operating revenues	<u>3,508,560</u>	<u>2,283,664</u>
Operating expenses		
Salaries and wages	1,573,002	1,420,087
Employee benefits	377,769	341,172
Supplies and other	1,127,656	976,364
Depreciation and amortization	<u>119,069</u>	<u>111,781</u>
Total operating expenses	<u>3,197,496</u>	<u>2,849,404</u>
Operating income (loss)	<u>311,064</u>	<u>(565,740)</u>
Nonoperating revenues (expenses)		
Sales tax revenue	126,879	156,984
Noncapital grants and contributions	42,728	22,069
Gain on disposal of assets		5,689
Investment income	1,080	1,251
Interest expense	(8,225)	(17,182)
Other		<u>61,107</u>
Total nonoperating revenues, net	<u>162,462</u>	<u>229,918</u>
Increase (decrease) in net assets	473,526	(335,822)
Net assets at beginning of year	<u>314,984</u>	<u>650,806</u>
Net assets at end of year	<u>\$ 788,510</u>	<u>\$ 314,984</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended September 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 3,012,614	\$ 2,292,262
Payments to or on behalf of employees	(1,902,270)	(1,443,558)
Payments to suppliers	(1,165,551)	(1,044,369)
Other receipts and payments	<u>30,623</u>	<u>27,452</u>
Net cash used by operating activities	<u>(24,584)</u>	<u>(168,213)</u>
Capital and related financing activities		
Interest paid	(8,225)	(17,182)
Principal and capital lease payments	(49,289)	(1,211)
Proceeds from note payable		20,000
Purchase of capital assets	(31,146)	(11,326)
Proceeds from sale of assets		<u>9,350</u>
Net cash used by noncapital financing activities	<u>(88,660)</u>	<u>(369)</u>
Noncapital financing activities financing activities		
Noncapital grants and contributions	42,728	22,069
Proceeds from sales tax	<u>126,879</u>	<u>125,587</u>
Net cash provided by noncapital and related financing activities	<u>169,607</u>	<u>147,656</u>
Cash flows from investing activities		
Investment income received	<u>1,080</u>	<u>1,251</u>
Increase (decrease) in cash and cash equivalents	57,443	(19,675)
Cash and cash equivalents at beginning of year	<u>192,266</u>	<u>211,941</u>
Cash and cash equivalents at end of year	<u>\$ 249,709</u>	<u>\$ 192,266</u>
Noncash transactions		
Gain of sale of assets	\$ -	\$ 5,689
Other		61,107
Capital lease obligation incurred	504,551	

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended September 30,

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income (loss) to net cash used by operating activities		
Operating income (loss)	\$ 311,064	\$ (565,740)
Adjustments to reconcile operating income (loss) to net cash used by operating activities		
Depreciation and amortization	119,069	111,781
Provision for bad debts	194,351	205,553
Changes in		
Patient accounts receivable	(447,962)	(171,584)
Inventory and prepaid expenses	(11,190)	(16,882)
Other assets	2,521	(9,500)
Accounts payable and accrued expenses	21,796	67,909
Estimated third-party payor settlements	<u>(214,233)</u>	<u>210,250</u>
Net cash used by operating activities	<u>\$ (24,584)</u>	<u>\$ (168,213)</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

A summary of the significant accounting policies of Sedan City Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

Sedan City Hospital (Hospital) is a not-for-profit critical access hospital located in Sedan, Kansas. The Hospital was organized to provide acute care services for the benefit of the community and is owned by Sedan, Kansas, and is governed by a Board of Trustees appointed by the governing body of the City of Sedan, Kansas. The Hospital primarily earns revenue by providing inpatient acute and outpatient services to patients in Southeast Kansas.

2. Basis of accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting," the Hospital has implemented all applicable GASB pronouncements, and all provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Hospital is accounted for similar to an enterprise fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Balances classified as operating revenues and expenses are those that comprise the Hospital's principal ongoing operations. Since the Hospital's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

4. Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

5. Patient receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying value of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

6. Inventories

Inventories are stated at lower of cost (first-in, first-out) or market.

7. Capital assets

Capital assets acquisitions in excess of \$5,000 (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

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. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

8. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for 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.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

9. Restricted resources

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

10. Net assets

Net assets of the Hospital are presented in the following two 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 balances used to finance the purchase or construction of those assets.

Unrestricted net assets - Unrestricted net assets are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including 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, other than financing costs.

12. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

13. Income taxes

The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 of the Code and is not required to file federal income tax returns.

14. Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the current year presentation. These reclassifications did not affect previously reported net assets or the change in net assets for 2010.

SEDAN CITY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2011 and 2010

NOTE B - 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 charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. 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 or reviewed by the Medicare fiscal intermediary through September 30, 2010.

Medicaid - Services rendered to Medicaid program beneficiaries, other than those covered by managed care plans, are paid under provisions applicable to critical access hospitals. Payments to the Hospital under the critical access hospital provisions are based on cost reimbursement methodologies used by the Medicare program. Final settlement with the Medicaid program is based on a cost report submitted and settled upon by the Medicare program. Medicaid has final-settled these cost reports through September 30, 2009.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 3,658,637	\$ 2,847,500
Deductions from patient service revenue		
Medicare and Medicaid contractual adjustments	207,827	(195,860)
Other contractals	(119,765)	(117,118)
Provision for bad debts	(194,351)	(205,553)
Charity care	(71,890)	(72,757)
Net patient service revenue	<u>\$ 3,480,458</u>	<u>\$ 2,256,212</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 74 percent and 11 percent, respectively, of the Hospital's net patient service revenue during 2011, and 81 and 3 percent, respectively, of the Hospital's net patient service revenue during 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term. Net patient service revenue for 2011 was increased by approximately \$375,000 due to changes in previously recorded estimates of settlements related to years prior to 2011.

NOTE C - CAPITAL ASSETS

Capital assets consist of the following:

	Balance September 30, 2010	Additions	Disposals	Balance September 30, 2011
Land	\$ 2,100	\$ -	\$ -	\$ 2,100
Land improvements	58,618			58,618
Buildings	961,505	26,145		987,650
Fixed equipment	720,874			720,874
Equipment	803,140	509,551		1,312,691
	<u>2,546,237</u>	<u>535,696</u>	<u>-</u>	<u>3,081,933</u>
Less accumulated depreciation and amortization	<u>2,195,867</u>	<u>119,068</u>	<u>-</u>	<u>2,314,935</u>
Capital assets, net	<u>\$ 350,370</u>	<u>\$ 416,628</u>	<u>\$ -</u>	<u>\$ 766,998</u>

	Balance September 30, 2009	Additions	Disposals	Balance September 30, 2010
Land	\$ 2,100	\$ -	\$ -	\$ 2,100
Land improvements	58,618			58,618
Buildings	961,505			961,505
Fixed equipment	709,548	11,326		720,874
Equipment	815,691		12,551	803,140
	<u>2,547,462</u>	<u>11,326</u>	<u>12,551</u>	<u>2,546,237</u>
Less accumulated depreciation and amortization	<u>2,092,976</u>	<u>111,781</u>	<u>8,890</u>	<u>2,195,867</u>
Capital assets, net	<u>\$ 454,486</u>	<u>\$ (100,455)</u>	<u>\$ 3,661</u>	<u>\$ 350,370</u>

SEDAN CITY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2011 and 2010

NOTE D - CASH AND DEPOSITS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of FDIC coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

At September 30, 2011, the carrying amount and book value of the Hospital's deposits with financial institutions was \$249,409 and the bank balances were \$322,873. Of the bank balances, all amounts were covered by FDIC insurance.

NOTE E - LEASES

The Hospital leases certain equipment under long-term lease agreements. Certain leases have been recorded as operating leases. Total lease expense for the years ended September 30, 2011 and 2010, for operating leases was \$46,763 and \$47,679, respectively.

NOTE F - CAPITAL LEASE PAYABLE

Capital lease payables are summarized as follows:

	<u>2011</u>	<u>2010</u>
Capital lease payable; implied interest rate of 5.00%; payable in monthly installments of \$9,500 through June 2016	\$ 478,363	\$ -
Capital lease payable, paid off in 2011		3,101
	478,363	3,101
Less current portion	92,175	3,101
Noncurrent portion	\$ 386,188	\$ -

The following is a summary of changes in capital lease obligations:

	<u>Balance September 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2010</u>
Capital leases	\$ 4,312	\$ -	\$ 1,211	\$ 3,101
	<u>Balance September 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2011</u>
Capital leases	\$ 3,101	\$504,551	\$ 29,289	\$ 478,363

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2011 and 2010

NOTE F - CAPITAL LEASE PAYABLE - Continued

Scheduled capital lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 92,175	\$ 21,825	\$ 114,000
2013	96,891	17,109	114,000
2014	101,848	12,152	114,000
2015	107,059	6,941	114,000
2016	<u>80,390</u>	<u>1,626</u>	<u>82,016</u>
	<u>\$ 478,363</u>	<u>\$ 59,653</u>	<u>\$ 538,016</u>

NOTE G - NOTE PAYABLE

At September 30, 2010, the Hospital had drawn \$20,000 on a line of credit that expired on June 17, 2011.

NOTE H - RETIREMENT PLAN

The Hospital offers a 403(b) tax sheltered annuity plan to employees. Currently, the Hospital does not make contributions on behalf of the employee. Employees are allowed to make elective or after-tax contributions to the plan. There are certain limitations imposed by the IRS for the total amount of annual contributions that may be made to an employee's 403(b) account and limits on the amount of elective deferrals that employees may make to a 403(b) plan. Distributions may generally be made because of the employee's death, disability, severance from employment, attainment of age 59-1/2 or, in the case of salary reduction contributions, financial hardship.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital is located in Sedan, Kansas. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2011</u>	<u>2010</u>
Medicare and Medicaid	44%	36%
Other third-party payors	28	18
Patients	<u>28</u>	<u>46</u>
	<u>100%</u>	<u>100%</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2011 and 2010

NOTE J - OTHER RELATED PARTY TRANSACTION

The Hospital has entered into a management agreement with Jane Phillips Medical Center. The Hospital incurred expenses of \$169,114 and \$141,958 for these services for the years ended September 30, 2011 and 2010, respectively. At September 30, 2011 and 2010, the Hospital owed \$260,454 and \$232,341, respectively to Jane Phillips Medical Center. The amounts owed are included in accounts payable on the balance sheet.

NOTE K - RISK MANAGEMENT

For the years ended September 30, 2011 and 2010, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2011, for the policy period from January 1, 2011 to January 1, 2012.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

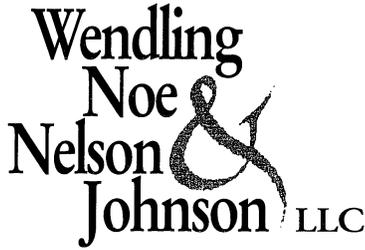
NOTE L - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note K). There have been claims asserted; however, management believes that any claims asserted will be resolved without cost to the Hospital, therefore, no accrual for loss contingencies has been made.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Sedan City Hospital

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Sedan City Hospital for the year ended September 30, 2011, which are presented in a preceding section of this report. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information presented on pages 16 through 18 has been subjected to the audit procedures applied in the audit of the basic financial statements. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements for the year ended September 30, 2011, taken as a whole.

The basic financial statements of Sedan City Hospital for the year ended September 30, 2010, which are presented in a preceding section of this report, were audited by other auditors whose report dated March 15, 2011, expressed an unqualified opinion on those statements. Their report, as of the same date, on the supplemental information related to the 2010 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended September 30, 2010, taken as a whole.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
March 24, 2012

SEDAN CITY HOSPITAL
 PATIENT SERVICE REVENUE
 Year ended September 30,

	2011			2010		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ -	\$ 640,449	\$ 640,449	\$ -	\$ 469,520	\$ 469,520
Routine care	<u>492,212</u>	<u>131,042</u>	<u>623,254</u>	<u>491,904</u>	<u>89,632</u>	<u>581,536</u>
	<u>492,212</u>	<u>771,491</u>	<u>1,263,703</u>	<u>491,904</u>	<u>559,152</u>	<u>1,051,056</u>
Other professional services						
Central supply	46,945	26,978	73,923	45,457	21,133	66,590
Laboratory	372,141	606,576	978,717	297,346	574,038	871,384
Pharmacy	160,131	105,364	265,495	167,900	117,045	284,945
Physical therapy	17,352	4,095	21,447	10,548		10,548
Radiology	109,820	429,030	538,850	89,430	328,521	417,951
Respiratory therapy	130,773	14,977	145,750	126,610	9,523	136,133
Wellness center		325	325	7,730	1,163	8,893
Wound care	<u>4,517</u>	<u>365,910</u>	<u>370,427</u>			
	<u>841,679</u>	<u>1,553,255</u>	<u>2,394,934</u>	<u>745,021</u>	<u>1,051,423</u>	<u>1,796,444</u>
Gross patient services revenue	<u>\$ 1,405,781</u>	<u>\$ 2,324,746</u>	<u>3,658,637</u>	<u>\$ 1,309,682</u>	<u>\$ 1,610,575</u>	<u>2,847,500</u>
Less adjustments						
Third party contractual allowances			(88,062)			312,978
Charity care			71,890			72,757
Provision for bad debts			<u>194,351</u>			<u>205,553</u>
Total contractual adjustments			<u>178,179</u>			<u>591,288</u>
Net patient service revenue			<u>\$ 3,480,458</u>			<u>\$ 2,256,212</u>

SEDAN CITY HOSPITAL
OTHER REVENUE
Year ended September 30,

	<u>2011</u>	<u>2010</u>
Other revenue		
Cafeteria	\$ 3,329	\$ 4,224
Medical records	934	624
Rental income	18,500	18,000
Vending	<u>5,339</u>	<u>4,604</u>
Total other revenue	<u>\$ 28,102</u>	<u>\$ 27,452</u>

SEDAN CITY HOSPITAL
EXPENSES BY FUNCTIONAL DIVISION
Year ended September 30,

	2011			2010		
	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ 436,437	\$ 102,390	\$ 538,827	\$ 332,428	\$ 165,376	\$ 497,804
Routine care	484,896	87,024	571,920	465,154	78,800	543,954
	<u>921,333</u>	<u>189,414</u>	<u>1,110,747</u>	<u>797,582</u>	<u>244,176</u>	<u>1,041,758</u>
Other professional services						
Central supply	40,530	20,307	60,837	40,503	19,835	60,338
Laboratory	151,424	192,911	344,335	148,129	178,046	326,175
Pharmacy	3,898	59,973	63,871	3,898	63,741	67,639
Physical therapy	7,326		7,326	5,623		5,623
Radiology	76,614	54,356	130,970	65,403	32,555	97,958
Wound care	8,726	152,075	160,801	297	2,441	2,738
	<u>288,518</u>	<u>479,622</u>	<u>768,140</u>	<u>263,853</u>	<u>296,618</u>	<u>560,471</u>
General services						
Dietary	52,855	24,567	77,422	50,847	24,445	75,292
Housekeeping	42,093	10,676	52,769	41,678	12,030	53,708
Laundry and linen		13,024	13,024		11,198	11,198
Medical records	56,492	33,156	89,648	37,419	39,725	77,144
Operation of plant	29,709	126,244	155,953	30,772	136,466	167,238
	<u>181,149</u>	<u>207,667</u>	<u>388,816</u>	<u>160,716</u>	<u>223,864</u>	<u>384,580</u>
Administrative services						
Administrative	182,002	250,953	432,955	197,936	211,706	409,642
Employee benefits		377,769	377,769		341,172	341,172
	<u>182,002</u>	<u>628,722</u>	<u>810,724</u>	<u>197,936</u>	<u>552,878</u>	<u>750,814</u>
Depreciation	-	119,069	119,069	-	111,781	111,781
Total expenses	<u>\$ 1,573,002</u>	<u>\$ 1,624,494</u>	<u>\$ 3,197,496</u>	<u>\$ 1,420,087</u>	<u>\$ 1,429,317</u>	<u>\$ 2,849,404</u>