

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



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A Component Unit of Stanton County, Kansas
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Stanton County Hospital
Johnson, Kansas

We have audited the accompanying balance sheets of Stanton County Hospital, a component unit of Stanton 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 Stanton 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.

The Hospital has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of Net Patient Service Revenue, Contractual Allowances, Charity Care and Other Operating Revenues and Operating Expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

May 21, 2012

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

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 194,186	\$ 21,096
Patient accounts receivable, net of allowance; 2011 - \$240,000, 2010 - \$201,000	384,013	663,240
Property taxes receivable	26,005	36,554
Estimated amounts due from Medicare and Medicaid	285,000	197,000
Supplies	91,289	87,850
Prepaid expenses and other	111,065	97,333
Total current assets	1,091,558	1,103,073
Noncurrent Cash and Deposits		
Cash and cash equivalents	-	598,185
Short-term certificate of deposit	221,221	220,759
Total noncurrent cash and deposits	221,221	818,944
Capital Assets, Net	11,766,019	3,030,781
Total assets	\$ 13,078,798	\$ 4,952,798
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 115,177	\$ 124,098
Accounts payable	151,917	74,556
Accrued expenses	322,132	336,124
Total current liabilities	589,226	534,778
Long-term Debt		
Total liabilities	220,881	336,058
Total liabilities	810,107	870,836
Net Assets		
Invested in capital assets, net of related debt	11,429,960	2,570,624
Unrestricted	838,731	1,511,338
Total net assets	12,268,691	4,081,962
Total liabilities and net assets	\$ 13,078,798	\$ 4,952,798

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

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$72,388, 2010 - \$75,478	\$ 3,593,578	\$ 3,563,766
Other	26,255	24,653
Total operating revenues	3,619,833	3,588,419
Operating Expenses		
Salaries and wages	2,674,004	2,603,262
Employee benefits	765,561	812,273
Purchased services and professional fees	355,889	265,916
Food	72,124	81,231
Utilities	148,419	103,055
Repairs and maintenance	64,855	16,648
Supplies and other	749,716	821,509
Depreciation	291,518	267,413
Loss on disposal of capital assets	31,947	759
Total operating expenses	5,154,033	4,972,066
Operating Loss	(1,534,200)	(1,383,647)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	705,763	851,947
Interest income	1,281	3,359
Interest expense	(16,608)	(16,697)
Noncapital grants and gifts	29,046	17,066
Total nonoperating revenues	719,482	855,675
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(814,718)	(527,972)
Capital Grants and Gifts	27,515	-
Transfers from County	8,973,932	1,781,422
Increase in Net Assets	8,186,729	1,253,450
Net Assets, Beginning of Year	4,081,962	2,828,512
Net Assets, End of Year	\$ 12,268,691	\$ 4,081,962

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

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 3,784,805	\$ 3,292,452
Payments to suppliers and contractors	(1,362,760)	(1,357,039)
Payments to employees	(3,453,557)	(3,391,637)
Other receipts, net	<u>58,202</u>	<u>25,412</u>
Net cash used in operating activities	<u>(973,310)</u>	<u>(1,430,812)</u>
Noncapital Financing Activities		
Intergovernmental revenue	716,312	833,688
Noncapital grants and gifts	<u>29,046</u>	<u>17,066</u>
Net cash provided by noncapital financing activities	<u>745,358</u>	<u>850,754</u>
Capital and Related Financing Activities		
Principal paid on capital lease obligations	(124,098)	(91,808)
Interest paid on capital lease obligations	(16,608)	(16,697)
Purchase of capital assets	(9,031,188)	(1,642,041)
Capital contributions from County	<u>8,973,932</u>	<u>1,781,422</u>
Net cash provided by (used in) capital and related financing activities	<u>(197,962)</u>	<u>30,876</u>
Investing Activities		
Interest income received	1,281	3,359
Net change in noncurrent cash and deposits	<u>(462)</u>	<u>(506)</u>
Net cash provided by investing activities	<u>819</u>	<u>2,853</u>
Decrease in Cash and Cash Equivalents	(425,095)	(546,329)
Cash and Cash Equivalents, Beginning of Year	<u>619,281</u>	<u>1,165,610</u>
Cash and Cash Equivalents, End of Year	<u>\$ 194,186</u>	<u>\$ 619,281</u>

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

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash	\$ 194,186	\$ 21,096
Cash and cash equivalents in noncurrent cash and deposits	-	598,185
Total cash and cash equivalents	\$ 194,186	\$ 619,281
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (1,534,200)	\$ (1,383,647)
Depreciation	291,518	267,413
Loss on sale of capital assets	31,947	759
Changes in operating assets and liabilities		
Patient accounts receivable, net	279,227	(153,314)
Estimated amounts due from and to Medicare	(88,000)	(118,000)
Accounts payable and accrued expenses	63,369	(6,878)
Other assets and liabilities	(17,171)	(37,145)
Net cash used in operating activities	\$ (973,310)	\$ (1,430,812)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 293,200
Capital assets acquired through noncash capital grants and gifts	\$ 27,515	\$ -

Stanton County Hospital
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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

Stanton County Hospital (Hospital) is an acute care hospital located in Johnson, Kansas. The Hospital is a component unit of Stanton County, Kansas (County). The Hospital is operated by a Board of Trustees elected by the registered voters of the County. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and long-term health services to patients in the Stanton 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 (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 county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

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 to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit.

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Intergovernmental Revenue

The Hospital received approximately 17% and 19% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2011 and 2010, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

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

Noncurrent Cash and Deposits

Noncurrent cash and deposits include assets set aside by the Board of Trustees for the purchase of capital assets over which the Board retains control and may at its discretion subsequently use for other purposes.

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 to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

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Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements 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	10 – 20 years
Buildings	15 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 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 two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

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

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Charity Care

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

Income Taxes

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

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at 101% of allowed cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

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 annual cost reports 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.

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Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the 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 \$101,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$17,000 in 2011 and \$65,000 in 2010.

Approximately 58% and 66% of net patient service revenue 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, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

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.

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At December 31, 2011 and 2010, respectively, \$102,777 and \$410,010 of the Hospital's bank balances of \$501,466 and \$910,576 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 102,777	\$ 410,010

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	\$ 415,007	\$ 839,740
Cash on hand	400	300
	\$ 415,407	\$ 840,040
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 194,186	\$ 21,096
Noncurrent cash and deposits	221,221	818,944
	\$ 415,407	\$ 840,040

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:

	2011	2010
Medicare	\$ 130,309	\$ 285,361
Medicaid	55,604	119,085
Blue Cross	46,469	92,345
Other third-party payers	79,282	121,727
Patients	312,349	245,722
	624,013	864,240
Less allowance for uncollectible accounts	240,000	201,000
	\$ 384,013	\$ 663,240

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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:

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,930	\$ -	\$ -	\$ 14,930
Land improvements	32,716	-	(11,899)	20,817
Buildings and fixed equipment	2,666,936	-	(897,356)	1,769,580
Major moveable equipment	1,391,212	84,770	(32,306)	1,443,676
Construction in progress	1,789,262	8,973,933	-	10,763,195
	<u>5,895,056</u>	<u>9,058,703</u>	<u>(941,561)</u>	<u>14,012,198</u>
Less accumulated depreciation				
Land improvements	30,146	963	(11,899)	19,210
Buildings and fixed equipment	1,995,708	76,839	(865,409)	1,207,138
Major moveable equipment	838,421	213,716	(32,306)	1,019,831
	<u>2,864,275</u>	<u>291,518</u>	<u>(909,614)</u>	<u>2,246,179</u>
Capital Assets, Net	<u>\$ 3,030,781</u>	<u>\$ 8,767,185</u>	<u>\$ (31,947)</u>	<u>\$11,766,019</u>
	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,930	\$ -	\$ -	\$ 14,930
Land improvements	37,169	-	(4,453)	32,716
Buildings and fixed equipment	2,678,889	-	(11,953)	2,666,936
Major moveable equipment	1,322,145	274,303	(205,236)	1,391,212
Construction in progress	128,324	1,660,938	-	1,789,262
	<u>4,181,457</u>	<u>1,935,241</u>	<u>(221,642)</u>	<u>5,895,056</u>
Less accumulated depreciation				
Land improvements	33,634	965	(4,453)	30,146
Buildings and fixed equipment	1,924,432	82,778	(11,502)	1,995,708
Major moveable equipment	859,679	183,670	(204,928)	838,421
	<u>2,817,745</u>	<u>267,413</u>	<u>(220,883)</u>	<u>2,864,275</u>
Capital Assets, Net	<u>\$ 1,363,712</u>	<u>\$ 1,667,828</u>	<u>\$ (759)</u>	<u>\$ 3,030,781</u>

Stanton County Hospital
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Note 6: Medical Malpractice 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 \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

Note 7: Long-term Obligations

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 460,156	\$ -	\$ 124,098	\$ 336,058	\$ 115,177
	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 258,764	\$ 293,200	\$ 91,808	\$ 460,156	\$ 124,098

Stanton County Hospital
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Notes to Financial Statements
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Capital Lease Obligations

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011 and 2010, totaled \$248,999 and \$406,927, respectively, net of accumulated depreciation of \$357,775 and \$199,847, respectively. The related capital assets are pledged against the lease. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 3.45% to 7.87% together with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	
2012	\$ 125,744
2013	100,806
2014	97,772
2015	32,200
Total minimum lease payments	<u>356,522</u>
Less amount representing interest	<u>(20,464)</u>
Present value of future minimum lease payments	<u><u>\$ 336,058</u></u>

Note 8: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

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Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 7.64%, 7.14% and 6.54% of annual covered payroll for 2011, 2010 and 2009, respectively. The Hospital's contributions to the plan for 2011, 2010 and 2009 were \$171,026, \$151,584 and \$113,232, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 9: Commitments

The Board of Trustees has approved a major renovation and construction project with a cost of approximately \$10,880,000. Financing will be provided by a combination of taxable general obligation bonds and general obligation refunding bonds in the amount of \$12,810,000. The bonds will be funded and paid for by Stanton County, Kansas. Construction was commenced in 2010 and will be completed by the middle of 2012.

Note 10: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Malpractice Claims

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

Admitting Physicians

The Hospital is served by two admitting physicians whose patients comprise approximately 78% of the Hospital's net patient service revenue.

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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 state may have an adverse effect on cash flows related to the Medicaid program.

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.

Supplementary Information

Stanton County Hospital
A Component Unit of Stanton County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Hospital nursing service	\$ 253,195	\$ -	\$ 253,195
Nursery	9,500	-	9,500
Operating room	-	55,140	55,140
Long-term care	773,805	-	773,805
Delivery room	29,400	2,800	32,200
Anesthesiology	-	10	10
Radiology	25,712	567,261	592,973
Laboratory	39,010	455,832	494,842
Physical therapy	29,044	425,536	454,580
Electrocardiology	2,575	17,612	20,187
Medical supplies	47,202	31,355	78,557
Pharmacy	117,737	88,300	206,037
Emergency room	-	247,280	247,280
Observation	60	204,690	204,750
Clinic	-	551,074	551,074
	<u>\$ 1,327,240</u>	<u>\$ 2,646,890</u>	3,974,130
Provision for uncollectible accounts			72,388
Contractual allowances and charity care			<u>308,164</u>
Net patient service revenue			<u>\$ 3,593,578</u>

2010		
Inpatient	Outpatient	Total
\$ 287,785	\$ -	\$ 287,785
7,400	-	7,400
-	11,475	11,475
1,029,451	-	1,029,451
37,325	2,000	39,325
-	-	-
58,273	470,688	528,961
75,240	383,197	458,437
32,766	287,361	320,127
1,720	14,305	16,025
71,980	24,470	96,450
209,882	115,352	325,234
2,030	149,760	151,790
745	169,883	170,628
-	261,106	261,106
<u>\$ 1,814,597</u>	<u>\$ 1,889,597</u>	3,704,194
		75,478
		64,950
		<u>\$ 3,563,766</u>

Stanton County Hospital
A Component Unit of Stanton County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Contractual Allowances and Charity Care		
Charity Care	\$ 51,555	\$ 19,549
Contractual Allowances		
Medicare	(259,508)	(248,351)
Medicaid	(82,064)	(88,891)
Blue Cross	370,191	201,192
Commercial insurance	192,507	141,803
Administrative adjustments	<u>35,483</u>	<u>39,648</u>
	<u>\$ 308,164</u>	<u>\$ 64,950</u>
 Other Operating Revenues		
Cafeteria sales	\$ 7,463	\$ 11,467
Finance charges on patient accounts	9,866	6,204
Rent	5,093	4,491
Miscellaneous	<u>3,833</u>	<u>2,491</u>
	<u>\$ 26,255</u>	<u>\$ 24,653</u>

Stanton County Hospital
A Component Unit of Stanton County, Kansas
Operating Expenses
Years Ended December 31, 2011 and 2010

	2011		
	Salaries	Other	Total
Hospital nursing service	\$ 433,289	\$ 49,229	\$ 482,518
Long-term care	708,436	76,554	784,990
Operating room	5,096	19,463	24,559
Delivery room	9,338	2,007	11,345
Radiology	68,773	103,232	172,005
Laboratory	70,622	144,852	215,474
Physical therapy	122,064	33,562	155,626
Electrocardiology	-	273	273
Medical supplies	22,642	34,685	57,327
Pharmacy	1,618	67,289	68,907
Emergency room	5,909	130,903	136,812
Depreciation and amortization	-	291,518	291,518
Employee benefits	-	765,561	765,561
Administrative and general	295,603	349,898	645,501
Operation of plant	98,666	187,669	286,335
Laundry and linen	7,604	4,746	12,350
Housekeeping	55,330	13,589	68,919
Dietary	140,936	106,472	247,408
Nursing service administration	54,751	1,015	55,766
Medical records	46,893	2,117	49,010
Social services	23,835	4,120	27,955
Clinic	502,599	91,275	593,874
	<u>\$ 2,674,004</u>	<u>\$ 2,480,029</u>	<u>\$ 5,154,033</u>

2010		
Salaries	Other	Total
\$ 452,305	\$ 34,238	\$ 486,543
845,717	108,926	954,643
-	9,872	9,872
9,132	3,031	12,163
55,845	98,287	154,132
81,465	148,767	230,232
123,372	32,680	156,052
-	114	114
20,921	22,729	43,650
234	98,144	98,378
20,188	50,119	70,307
-	267,413	267,413
-	812,273	812,273
229,770	366,259	596,029
97,831	121,688	219,519
39,473	7,552	47,025
51,674	16,895	68,569
140,948	103,206	244,154
76,101	337	76,438
71,556	4,220	75,776
19,733	2,836	22,569
266,997	59,218	326,215
\$ 2,603,262	\$ 2,368,804	\$ 4,972,066