

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



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

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Independent Accountants' Report

Board of Directors
Stevens County Hospital
Hugoton, Kansas

We have audited the accompanying balance sheets of Stevens County Hospital, a component unit of Stevens 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 Stevens 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 30, 2012

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

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,236,284	\$ 3,253,769
Short-term certificates of deposit	632,005	1,888
Patient accounts receivable, net of allowance; 2011 – \$465,000, 2010 – \$490,000	1,155,190	1,286,421
Accounts receivable - retail pharmacy	85,193	91,470
Estimated amounts due from third-party payers	228,000	-
Supplies	300,992	193,606
Prepaid expenses and other	23,743	21,515
Total current assets	3,661,407	4,848,669
Capital Assets, Net	7,486,801	6,179,213
Deferred Financing Costs	-	10,868
Total assets	\$ 11,148,208	\$ 11,038,750
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 650,637	\$ 158,657
Accounts payable	335,516	298,899
Accrued expenses	824,563	775,548
Estimated amounts due to third-party payers	-	500,000
Total current liabilities	1,810,716	1,733,104
Long-term Debt	809,305	124,797
Total liabilities	2,620,021	1,857,901
Net Assets		
Invested in capital assets, net of related debt	6,026,859	5,895,759
Unrestricted	2,501,328	3,285,090
Total net assets	8,528,187	9,180,849
Total liabilities and net assets	\$ 11,148,208	\$ 11,038,750

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

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$255,000, 2010 – \$314,000	\$ 10,617,852	\$ 10,611,038
Retail pharmacy	1,523,039	100,960
Other	<u>49,946</u>	<u>44,715</u>
Total operating revenues	<u>12,190,837</u>	<u>10,756,713</u>
Operating Expenses		
Salaries and wages	6,965,438	6,981,005
Employee benefits	2,468,369	2,148,709
Purchased services and professional fees	1,250,173	1,185,361
Supplies and other	2,384,648	2,282,534
Retail pharmacy supplies	1,174,859	27,452
Depreciation and amortization	<u>531,834</u>	<u>559,846</u>
Total operating expenses	<u>14,775,321</u>	<u>13,184,907</u>
Operating Loss	<u>(2,584,484)</u>	<u>(2,428,194)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	1,900,000	2,125,000
Interest income	21,011	32,660
Interest expense	(9,789)	(12,887)
Noncapital grants and gifts	17,542	58,064
Other	<u>3,058</u>	<u>11,393</u>
Total nonoperating revenues	<u>1,931,822</u>	<u>2,214,230</u>
Decrease in Net Assets	(652,662)	(213,964)
Net Assets, Beginning of Year	<u>9,180,849</u>	<u>9,394,813</u>
Net Assets, End of Year	<u>\$ 8,528,187</u>	<u>\$ 9,180,849</u>

Stevens County Hospital
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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	\$ 10,027,360	\$ 11,395,353
Payments to suppliers and contractors	(4,882,677)	(3,388,963)
Payments to and on behalf of employees	(9,384,792)	(9,139,655)
Retail pharmacy receipts	1,523,039	100,960
Other receipts, net	49,946	44,715
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(2,667,124)</u>	<u>(987,590)</u>
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	1,900,000	2,125,000
Noncapital grants and gifts	17,542	58,064
Other	3,058	11,393
	<u> </u>	<u> </u>
Net cash provided by noncapital financing activities	<u>1,920,600</u>	<u>2,194,457</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(258,962)	(305,630)
Interest paid on long-term debt	(9,789)	(12,887)
Purchase of capital assets	(393,104)	(127,428)
	<u> </u>	<u> </u>
Net cash used in capital and related financing activities	<u>(661,855)</u>	<u>(445,945)</u>
Investing Activities		
Interest income received	21,011	32,660
Change in short-term certificates of deposit	(630,117)	(45)
	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	<u>(609,106)</u>	<u>32,615</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,017,485)	793,537
Cash and Cash Equivalents, Beginning of Year	<u>3,253,769</u>	<u>2,460,232</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,236,284</u></u>	<u><u>\$ 3,253,769</u></u>

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

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (2,584,484)	\$ (2,428,194)
Depreciation and amortization	531,834	559,846
Changes in operating assets and liabilities		
Patient accounts receivable, net	137,508	(116,685)
Estimated amounts due from and to Medicare	(728,000)	901,000
Accounts payable and accrued expenses	85,632	90,198
Supplies and prepaid expenses	(109,614)	6,245
Net cash used in operating activities	\$ (2,667,124)	\$ (987,590)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 1,435,450	\$ -
Capital assets acquisitions included in accounts payable	\$ -	\$ 30,599

Stevens County Hospital
A Component Unit of Stevens 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

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and a home health agency in the same geographic 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 intergovernmental revenue, interest 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 were issued on or before 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 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 13% and 16% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2011 and 2010, respectively. One hundred percent of these funds were used to support operations in both years.

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

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Workers' Risk Cooperative for Counties. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty 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 for both workers' compensation and property and casualty risks.

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 cost, determined using the first-in, first-out method.

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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 – 40 years
Building	5 – 40 years
Fixed equipment	5 – 25 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 purpose 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, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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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 exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

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) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Rural Health Clinic services are paid on a cost basis. Home Health Services are paid on a per-episode basis using clinical diagnostic and other factors.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid rural health clinic services are reimbursed under a cost-based methodology. The Hospital and rural health clinic are 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.

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

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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 retroactive 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 \$358,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 55% and 53% 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 rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: 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.

At December 31, 2011 and 2010, respectively, \$1,341,232 and \$3,066,964 of the Hospital's bank balances of \$1,884,496 and \$3,355,100 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	<u>\$ 1,341,232</u>	<u>\$ 3,066,964</u>

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December 31, 2011 and 2010

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 1,868,289	\$ 3,255,657
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,236,284	\$ 3,253,769
Short-term certificates of deposit	632,005	1,888
	<u>\$ 1,868,289</u>	<u>\$ 3,255,657</u>

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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 444,996	\$ 670,421
Medicaid	167,852	163,528
Blue Cross	218,742	258,138
Other third-party payers	307,600	296,735
Patients	481,000	387,599
	<u>1,620,190</u>	<u>1,776,421</u>
Less allowance for uncollectible accounts	465,000	490,000
	<u>\$ 1,155,190</u>	<u>\$ 1,286,421</u>

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Notes to Financial Statements
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Note 5: Capital Assets

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

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 81,714	\$ -	\$ -	\$ 81,714
Buildings	9,550,130	267,376	-	9,817,506
Fixed equipment	1,620,186	5,804	-	1,625,990
Major moveable equipment	4,356,841	119,924	-	4,476,765
Construction in progress	-	1,435,450	-	1,435,450
	<u>15,608,871</u>	<u>1,828,554</u>	<u>-</u>	<u>17,437,425</u>
Less accumulated depreciation				
Land improvements	46,076	4,285	-	50,361
Buildings	4,163,202	241,715	-	4,404,917
Fixed equipment	1,461,895	24,337	-	1,486,232
Major moveable equipment	3,758,485	250,629	-	4,009,114
	<u>9,429,658</u>	<u>520,966</u>	<u>-</u>	<u>9,950,624</u>
Capital assets, net	<u>\$ 6,179,213</u>	<u>\$ 1,307,588</u>	<u>\$ -</u>	<u>\$ 7,486,801</u>
	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 81,714	\$ -	\$ -	\$ 81,714
Buildings	9,484,300	65,830	-	9,550,130
Fixed equipment	1,620,186	-	-	1,620,186
Major moveable equipment	4,264,644	92,197	-	4,356,841
	<u>15,450,844</u>	<u>158,027</u>	<u>-</u>	<u>15,608,871</u>
Less accumulated depreciation				
Land improvements	41,792	4,284	-	46,076
Buildings	3,924,453	238,749	-	4,163,202
Fixed equipment	1,448,498	13,397	-	1,461,895
Major moveable equipment	3,465,938	292,547	-	3,758,485
	<u>8,880,681</u>	<u>548,977</u>	<u>-</u>	<u>9,429,658</u>
Capital assets, net	<u>\$ 6,570,163</u>	<u>\$ (390,950)</u>	<u>\$ -</u>	<u>\$ 6,179,213</u>

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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 \$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 future.

Note 7: Long-term Debt

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 55,000	\$ -	\$ 55,000	\$ -	\$ -
Note payable – County	80,000	-	20,000	60,000	20,000
Capital lease obligations	148,454	1,435,450	183,962	1,399,942	630,637
Total long-term debt	<u>\$ 283,454</u>	<u>\$ 1,435,450</u>	<u>\$ 258,962</u>	<u>\$ 1,459,942</u>	<u>\$ 650,637</u>

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 260,000	\$ -	\$ 205,000	\$ 55,000	\$ 55,000
Note payable – County	100,000	-	20,000	80,000	20,000
Capital lease obligations	229,084	-	80,630	148,454	83,657
Total long-term debt	<u>\$ 589,084</u>	<u>\$ -</u>	<u>\$ 305,630</u>	<u>\$ 283,454</u>	<u>\$ 158,657</u>

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Revenue Bonds Payable

The revenue bonds payable consisted of County Health Care Facility Refunding Revenue Bonds (Bonds) in the original amount of \$1,375,000 dated June 15, 2003, which bear interest at 3.20% to 3.80%. The Bonds were payable in annual installments of principal and semi-annual installments of interest through July 1, 2011. The Bonds were secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement. The bonds were paid in full on July 1, 2011, and have no balance as of December 31, 2011.

Note Payable – County

The note payable – County consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2005A (Bonds) in the original amount of \$200,000 dated February 15, 2005. These Bonds were purchased in their entirety by Pioneer Electric Cooperative, Inc. at their par value with no interest due on these Bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to finance remodeling of the emergency room. The Bonds are payable in annual installments of \$20,000 through February 15, 2015. Pursuant to the agreement with the County, the Hospital remits funds to the County in December for the Bond payment due the following February.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 20,000	\$ 20,000	\$ -
2013	20,000	20,000	-
2014	20,000	20,000	-
	\$ 60,000	\$ 60,000	\$ -
	\$ 60,000	\$ 60,000	\$ -

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Capital Lease Obligations

The Hospital is obligated under leases for equipment and software that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Hospital. Assets under capital leases at December 31, 2011 and 2010, totaled \$1,486,617 and \$153,501, respectively, net of accumulated depreciation of \$460,505 and \$358,171, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates ranging from 3.69% to 3.25% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 695,652
2013	629,855
2014	<u>226,782</u>
Total minimum lease payments	1,552,289
Less amount representing interest	<u>152,347</u>
	<u><u>\$ 1,399,942</u></u>

The Hospital entered into a capital lease agreement with Western State Bank for the purchase of their Electronic Health Records (EHR) system in September 2011. Total commitment of the signed lease agreement is \$2,900,000, however the lease is being paid out on a disbursement schedule and as of December 31, 2011, only \$1,435,450 had been disbursed and recorded on the Hospital's books. The remainder of the disbursements will occur in 2012. Monthly payments of \$52,488, which include interest, began in November 2011 and will continue through October 2016.

Note 8: Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3% and 4%, respectively, for both 2011 and 2010. Contributions actually made by plan members and the Hospital aggregated \$118,312 and \$160,346 during 2011 and \$129,146 and \$171,923 during 2010, respectively.

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Note 9: Current Economic Conditions

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

Note 10: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.