

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Independent Accountants' Report and Financial Statements
December 31, 2011 and 2010



St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
December 31, 2011 and 2010

Contents

Independent Accountants' Report..... 1

Financial Statements

Balance Sheets..... 2

Sumner Regional Medical Center Endowment Foundation – Statements of Financial Position 3

Statements of Revenues, Expenses and Changes in Net Assets 4

Sumner Regional Medical Center Endowment Foundation – Statements of Activities 5

Statements of Cash Flows..... 6

Notes to Financial Statements 8

Independent Accountants' Report

Board of Directors
Healthcare Authority of the City of Wellington, Kansas
Governing Body for St. Luke's Hospital d/b/a Sumner Regional Medical Center
Wellington, Kansas

We have audited the accompanying basic financial statements of St. Luke's Hospital d/b/a Sumner Regional Medical Center, a component unit of the City of Wellington, Kansas, and its discretely presented component unit as of December 31, 2011 and 2010, 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 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 St. Luke's Hospital d/b/a Sumner Regional Medical Center and its discretely presented component unit as of December 31, 2011 and 2010, and the respective changes in financial position and 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 opinions on the basic financial statements are not affected by this missing information.

BKD, LLP

June 14, 2012

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Balance Sheets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 809,443	\$ 1,073,202
Short-term certificates of deposit	1,058,812	1,045,388
Restricted cash - current	62,083	60,381
Patient accounts receivable, net of allowance; 2011 - \$1,024,000, 2010 - \$1,271,000	2,414,892	2,158,188
Sales tax receivable	22,000	22,000
Estimated amounts due from third-party payers	-	31,000
Supplies	289,317	269,879
Prepaid expenses and other	<u>257,012</u>	<u>207,540</u>
Total current assets	<u>4,913,559</u>	<u>4,867,578</u>
Noncurrent Cash and Cash Equivalents		
Held under bond indenture for debt service - held by City	-	14,221
Restricted by donors for capital acquisitions	<u>70,823</u>	<u>66,422</u>
Total noncurrent cash and cash equivalents	<u>70,823</u>	<u>80,643</u>
Capital Assets, Net	<u>5,400,809</u>	<u>4,110,422</u>
Total assets	<u><u>\$ 10,385,191</u></u>	<u><u>\$ 9,058,643</u></u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 607,894	\$ 260,600
Accounts payable	703,750	534,490
Accrued expenses	681,725	616,814
Deferred revenue	71,250	86,462
Estimated amounts due to third-party payers	<u>230,000</u>	<u>-</u>
Total current liabilities	2,294,619	1,498,366
Long-term Debt	<u>3,092,455</u>	<u>2,102,000</u>
Total liabilities	<u>5,387,074</u>	<u>3,600,366</u>
Net Assets		
Invested in capital assets, net of related debt	1,700,460	1,747,822
Restricted - expendable for capital acquisitions	70,818	66,421
Restricted - expendable for debt service	74,602	74,602
Unrestricted	<u>3,152,237</u>	<u>3,569,432</u>
Total net assets	<u>4,998,117</u>	<u>5,458,277</u>
Total liabilities and net assets	<u><u>\$ 10,385,191</u></u>	<u><u>\$ 9,058,643</u></u>

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Sumner Regional Medical Center Endowment Foundation
Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 351,672	\$ 243,327
Short-term certificates of deposit	30,194	29,841
Mutual funds	136,274	136,422
Total assets	\$ 518,140	\$ 409,590
 Unrestricted Net Assets	 \$ 518,140	 \$ 409,590

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provisions for uncollectible accounts; 2011 - \$646,000, 2010 - \$1,333,000	\$ 12,735,869	\$ 11,557,293
Other	252,990	248,259
Total operating revenues	12,988,859	11,805,552
Operating Expenses		
Salaries and wages	5,515,943	5,650,562
Employee benefits	1,553,798	1,753,754
Purchased services and professional fees	2,470,240	2,419,897
Supplies and other	3,717,469	3,433,941
Depreciation	629,819	617,794
Total operating expenses	13,887,269	13,875,948
Operating Loss	(898,410)	(2,070,396)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue - utilities abatement	159,604	194,538
Intergovernmental revenue - sales tax	283,050	279,159
Interest income	15,827	24,594
Interest expense	(84,073)	(62,176)
Noncapital grants and gifts	54,358	24,536
Total nonoperating revenues	428,766	460,651
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(469,644)	(1,609,745)
Capital Grants and Gifts	9,484	9,362
Decrease in Net Assets	(460,160)	(1,600,383)
Net Assets, Beginning of Year	5,458,277	7,058,660
Net Assets, End of Year	\$ 4,998,117	\$ 5,458,277

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Sumner Regional Medical Center Endowment Foundation

Statements of Activities

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Revenues, Gains and Other Support		
Contributions	\$ 127,077	\$ 48,972
Fund raising income	24,449	3,599
Interest and dividends income	<u>1,075</u>	<u>1,102</u>
Total revenues, gains and other support	<u>152,601</u>	<u>53,673</u>
Unrestricted Expenses		
Residential living expense	20,002	13,727
Miscellaneous expense	14,382	1,695
Fund raising expense	7,527	4,487
Support to Sumner Regional Medical Center	<u>2,140</u>	<u>980</u>
Total expenses	<u>44,051</u>	<u>20,889</u>
Change in Unrestricted Net Assets	108,550	32,784
Unrestricted Net Assets, Beginning of Year	<u>409,590</u>	<u>376,806</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 518,140</u></u>	<u><u>\$ 409,590</u></u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, 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	\$ 12,724,953	\$ 12,314,652
Payments to suppliers	(5,927,755)	(5,694,259)
Payments to and on behalf of employees	(7,004,830)	(7,275,494)
Other receipts, net	252,990	248,259
	<u>45,358</u>	<u>(406,842)</u>
Noncapital Financing Activities		
Sales taxes supporting operations	283,050	305,289
Noncapital grants and gifts	54,358	24,536
	<u>337,408</u>	<u>329,825</u>
Capital and Related Financing Activities		
Capital grants and gifts	9,484	9,362
Proceeds from issuance of bonds payable	-	1,175,000
Payment of bond issuance costs	-	(57,484)
Principal paid on long-term debt	(434,951)	(160,400)
Interest paid on long-term debt	(84,073)	(62,176)
Purchase of capital assets	(147,506)	(1,198,918)
	<u>(657,046)</u>	<u>(294,616)</u>
Investing Activities		
Interest income	15,827	24,594
Purchase of certificates of deposit	(252,115)	(17,688)
Proceeds from maturities of certificates of deposit	238,691	-
Net change in construction escrow and debt-related accounts	14,221	(14,221)
	<u>16,624</u>	<u>(7,315)</u>
Decrease in Cash and Cash Equivalents	(257,656)	(378,948)
Cash and Cash Equivalents, Beginning of Year	1,200,005	1,578,953
Cash and Cash Equivalents, End of Year	<u>\$ 942,349</u>	<u>\$ 1,200,005</u>

St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas
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 and cash equivalents in current assets	\$ 871,526	\$ 1,133,583
Cash and cash equivalents in noncurrent cash	70,823	66,422
Total cash	\$ 942,349	\$ 1,200,005
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (898,410)	\$ (2,070,396)
Depreciation	629,819	617,794
Abatement of utilities by City	159,604	194,538
Changes in operating assets and liabilities		
Patient accounts receivable, net	(256,704)	661,859
Estimated amounts due from and to third-party payers	261,000	89,000
Accounts payable and accrued expenses	218,959	80,666
Supplies and prepaid expenses	(68,910)	19,697
Net cash provided by (used in) operating activities	\$ 45,358	\$ (406,842)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 1,772,700	\$ 528,000

St. Luke's Hospital d/b/a Sumner Regional Medical Center A Component Unit of the City of Wellington, 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

St. Luke's Hospital d/b/a Sumner Regional Medical Center (the Hospital) is operated under the Healthcare Authority of the City of Wellington, Kansas (Authority). On June 7, 1994, the Governing Body of the City of Wellington, Kansas created the Authority to operate, control and manage all matters concerning the Hospital. The Governing Body of the City of Wellington, Kansas appoints members to the Board of Directors of the Authority. Under accounting principles generally accepted in the United States of America, the Authority and Hospital constitute a discretely presented component unit of the City of Wellington, Kansas (the City), for financial reporting purposes. The Hospital primarily earns revenues by providing inpatient, outpatient, skilled nursing and geriatric psychology services for the benefit of the community.

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 (primarily federal and state grants) 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 from sales taxes, 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.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

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 of money market accounts.

Intergovernmental Revenue

The Hospital received approximately 2% in both 2011 and 2010 of its financial support from the proceeds of sales taxes levied for health care integration by the City and shared with the Hospital for hospital purposes. These funds were entirely used to support operations of the Hospital. In 2010 the City agreed to abate the utilities costs due to the City from approximately July 1, 2010 through December 31, 2010. The City continued to abate the utilities through June 30, 2011. Effective July 1, 2011, the Hospital resumed payments to the City for utilities.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

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

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Capital Assets

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

Land improvements	5 – 20 years
Buildings	5 – 40 years
Equipment and major moveable equipment	3 – 10 years

Compensated Absences

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

Net Assets

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

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Net Patient Service Revenue

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

Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the City, 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.

Foundation

Sumner Regional Medical Center Endowment Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient's acuity. 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. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology.

Approximately 52% and 57% 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 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.

The 2011 net patient service revenue decreased approximately \$118,000 due to final settlements in excess of amounts previously estimated.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

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 of the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2011 and 2010, respectively, \$632,871 and \$1,036,737 of the Hospital's bank balances of \$2,130,923 and \$2,529,340 were exposed to custodial credit risk as follows:

	<u>2011</u>	<u>2010</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 632,871</u>	<u>\$ 1,036,737</u>

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	<u>\$ 2,001,161</u>	<u>\$ 2,259,614</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 809,443	\$ 1,073,202
Short-term certificates of deposit	1,058,812	1,045,388
Restricted cash - current	62,083	60,381
Noncurrent cash and cash equivalents	<u>70,823</u>	<u>80,643</u>
	<u>\$ 2,001,161</u>	<u>\$ 2,259,614</u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are 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	\$ 967,142	\$ 831,578
Medicaid	152,397	81,854
Other third-party payers	1,049,267	909,971
Patients	<u>1,270,086</u>	<u>1,605,369</u>
	3,438,892	3,428,772
Less allowance for uncollectible accounts	<u>1,024,000</u>	<u>1,270,584</u>
	<u><u>\$ 2,414,892</u></u>	<u><u>\$ 2,158,188</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	<u>2011</u>				
	<u>Beginning</u>				<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u>
Land	\$ 115,142	\$ -	\$ -	\$ -	\$ 115,142
Land improvements	314,007	-	-	-	314,007
Buildings	6,667,583	17,120	-	48,584	6,733,287
Equipment	2,580,334	-	-	-	2,580,334
Major moveable equipment	5,519,946	227,988	-	-	5,747,934
Construction in progress	<u>11,872</u>	<u>1,675,098</u>	<u>-</u>	<u>(48,584)</u>	<u>1,638,386</u>
	<u>15,208,884</u>	<u>1,920,206</u>	<u>-</u>	<u>-</u>	<u>17,129,090</u>
Less accumulated depreciation					
Land improvements	305,143	3,711	-	-	308,854
Buildings	5,405,161	134,920	-	-	5,540,081
Equipment	1,042,344	174,024	-	-	1,216,368
Major moveable equipment	<u>4,345,814</u>	<u>317,164</u>	<u>-</u>	<u>-</u>	<u>4,662,978</u>
	<u>11,098,462</u>	<u>629,819</u>	<u>-</u>	<u>-</u>	<u>11,728,281</u>
Capital Assets, Net	<u><u>\$ 4,110,422</u></u>	<u><u>\$ 1,290,387</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,400,809</u></u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 115,142	\$ -	\$ -	\$ -	\$ 115,142
Land improvements	314,007	-	-	-	314,007
Buildings	6,667,583	-	-	-	6,667,583
Equipment	1,473,448	1,104,516	-	2,370	2,580,334
Major moveable equipment	4,907,967	614,349	-	(2,370)	5,519,946
Construction in progress	3,819	8,053	-	-	11,872
	<u>13,481,966</u>	<u>1,726,918</u>	<u>-</u>	<u>-</u>	<u>15,208,884</u>
Less accumulated depreciation					
Land improvements	301,432	3,711	-	-	305,143
Buildings	5,230,521	174,640	-	-	5,405,161
Equipment	928,907	113,437	-	-	1,042,344
Major moveable equipment	4,019,808	326,006	-	-	4,345,814
	<u>10,480,668</u>	<u>617,794</u>	<u>-</u>	<u>-</u>	<u>11,098,462</u>
Capital Assets, Net	<u>\$ 3,001,298</u>	<u>\$ 1,109,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,110,422</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Note 7: Long-term Debt

The following is a summary of long-term debt 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					
Public building commission bonds payable - 2007	\$ 730,000	\$ -	\$ 90,000	\$ 640,000	\$ 95,000
Public building commission bonds payable - 2010	1,175,000	-	65,000	1,110,000	65,000
Capital lease obligations	457,600	1,772,700	279,951	1,950,349	447,894
	<u>\$ 2,362,600</u>	<u>\$ 1,772,700</u>	<u>\$ 434,951</u>	<u>\$ 3,700,349</u>	<u>\$ 607,894</u>

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public building commission bonds payable - 2007	\$ 820,000	\$ -	\$ 90,000	\$ 730,000	\$ 90,000
Public building commission bonds payable - 2010	-	1,175,000	-	1,175,000	65,000
Capital lease obligations	-	528,000	70,400	457,600	105,600
	<u>\$ 820,000</u>	<u>\$ 1,703,000</u>	<u>\$ 160,400</u>	<u>\$ 2,362,600</u>	<u>\$ 260,600</u>

Building Commission Bonds Payable – 2007

The Public Building Commission bonds payable consist of City of Wellington, Kansas Public Building Commission Revenue Bonds Series 2007 in the original amount of \$985,000 dated December 15, 2007, which bear interest at 3.30% to 3.65%. The bonds are payable in annual installments beginning December 1, 2009 through December 1, 2017. Semi-annual interest only payments are due beginning June 1, 2008 through June 1, 2017. The Hospital is required to make monthly deposits to the debt service account of approximately \$9,500. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 117,802	\$ 95,000	\$ 22,802
2013	119,525	100,000	19,525
2014	121,025	105,000	16,025
2015	122,297	110,000	12,297
2016	123,337	115,000	8,337
2017	119,197	115,000	4,197
	<u>\$ 723,183</u>	<u>\$ 640,000</u>	<u>\$ 83,183</u>

Building Commission Bonds Payable - 2010

The Public Building Commission bonds payable consist of City of Wellington, Kansas Public Building Commission Revenue Bonds Series 2010 in the original amount of \$1,075,000 dated March 1, 2010, which bear interest at 1.00% to 4.00%. The bonds are payable in annual installments beginning March 1, 2011 through March 1, 2025. Semi-annual interest only payments are due beginning September 1, 2010 through September 1, 2024. The Hospital is required to make monthly deposits to the debt service account of approximately \$8,100. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 97,310	\$ 65,000	\$ 32,310
2013	101,513	70,000	31,513
2014	100,427	70,000	30,427
2015	99,098	70,000	29,098
2016	97,540	70,000	27,540
2017 - 2021	585,219	480,000	105,219
2022 - 2027	315,156	285,000	30,156
	<u>\$ 1,396,263</u>	<u>\$ 1,110,000</u>	<u>\$ 286,263</u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The cost of assets under capital leases at December 31, 2011 and 2010, totaled \$650,700 and \$528,000, respectively, with accumulated depreciation of \$189,615 and \$70,713, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 0% to 2.48%, together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,		
2012	\$	481,385
2013		481,385
2014		481,385
2015		410,985
2016		181,758
Total minimum lease payments		<u>2,036,898</u>
Less amounts representing interest		<u>86,550</u>
Present value of future minimum lease payments	\$	<u><u>1,950,348</u></u>

Note 8: Restricted and Designated Net Assets

At December 31, 2011 and 2010, restricted expendable net assets were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Debt service	\$ 74,602	\$ 74,602
Capital acquisitions	<u>70,822</u>	<u>66,422</u>
Total restricted expendable net assets	<u><u>\$ 145,424</u></u>	<u><u>\$ 141,024</u></u>

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Note 9: Operating Leases

The Hospital has entered into various operating leases for equipment with terms ranging from one to five years. The leases require the Hospital to pay certain executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2011, were:

2012	\$ 558,613
2013	282,952
2014	124,366
2015	116,641
2016	43,025
	<hr/>
	\$ 1,125,597
	<hr/> <hr/>

Rent expense for all operating leases was \$513,326 and \$562,095 for the years ended December 31, 2011 and 2010, respectively.

Note 10: 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 Directors. 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. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with 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 7.74%, 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 \$377,796, \$383,708 and \$321,503, 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 11: Significant Estimates and Concentrations

Current Economic Conditions

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

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

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

**St. Luke's Hospital d/b/a Sumner Regional Medical Center
A Component Unit of the City of Wellington, Kansas**

Notes to Financial Statements

December 31, 2011 and 2010

Note 12: 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.

Note 13: Sumner Regional Medical Center Endowment Foundation

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.