

**Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas**

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Wilson County Hospital d/b/a Wilson Medical Center
Neodesha, Kansas

We have audited the accompanying basic financial statements of Wilson County Hospital d/b/a Wilson Medical Center (Hospital) and its discretely presented component unit (Wilson Medical Center Foundation or "Foundation"), collectively a component unit of Wilson County, Kansas, as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wilson County Hospital d/b/a Wilson 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 thereof, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

May 31, 2012

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Wilson County Hospital d/b/a Wilson Medical Center (the "Hospital") provides an overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and short-term investments increased in 2011 by \$862,108 or 54.2% and decreased in 2010 by \$146,898 or 8.4%.
- The Hospital's net assets decreased \$43,818 and \$2,393,834 in 2011 and 2010, respectively.
- The Hospital reported operating income in 2011 of \$212,932 and an operating loss in 2010 of \$286,131.

Using This Annual Report

The Hospital's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets – the difference between assets and liabilities – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. As shown in Table 2, the Hospital's net assets decreased by \$43,818 and \$2,393,834 in 2011 and 2010, respectively.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash and short-term investments	\$ 2,452,401	\$ 1,590,293	\$ 1,737,191
Patient accounts receivable, net	2,319,001	1,427,258	1,767,234
Other current assets	929,988	996,927	703,539
Capital assets, net	10,840,590	10,960,468	11,862,422
Other noncurrent assets	1,094,661	1,139,748	1,225,536
Total assets	<u>\$ 17,636,641</u>	<u>\$ 16,114,694</u>	<u>\$ 17,295,922</u>
Liabilities			
Long-term debt	\$ 12,309,428	\$ 12,351,422	\$ 12,741,080
Other current liabilities	3,780,465	2,172,706	2,471,555
Total liabilities	<u>16,089,893</u>	<u>14,524,128</u>	<u>15,212,635</u>
Net Assets			
Invested in capital assets, net of related debt	(1,709,447)	(1,739,148)	(1,196,857)
Restricted expendable	1,141,232	1,136,151	1,141,729
Unrestricted	2,114,963	2,193,563	2,138,415
Total net assets	<u>1,546,748</u>	<u>1,590,566</u>	<u>2,083,287</u>
Total liabilities and net assets	<u>\$ 17,636,641</u>	<u>\$ 16,114,694</u>	<u>\$ 17,295,922</u>

A significant change in the Hospital's assets in 2011 is the increase in patient accounts receivable. Although net patient service revenues increased in 2011 by \$409,663 (4.0%) as compared to 2010, net patient accounts receivable increased by \$891,743 (62.4%) at December 31, 2011 versus December 31, 2010. The increase computes to approximately 31 days of net patient service revenue. The increase related primarily to delays in payment on Medicare services as a result in requests of records on several large claims. These claims were subsequently paid in 2012.

Another significant change in the Hospital's assets in 2011 is the increase in cash and short-term investments of \$862,108 (54.2%) as compared to 2010. This resulted primarily from an increase in Medicare outpatient revenue and the related reimbursement. The increased interim reimbursement also resulted in an increase in the estimated amounts due to Medicare in the Hospital's 2011 Medicare cost report. The cost report payable is reflected in the other current liabilities.

One other significant change in the Hospital's financial position in 2011 was the increase in capital assets and related capital lease obligations for the acquisition of new equipment, as discussed in the *Capital Assets* section below.

Operating Results and Changes in the Hospital's Net Assets

As shown in Table 2, the Hospital's net assets decreased by \$43,818 in 2011 and \$2,393,834 in 2010. The decrease is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 10,568,885	\$ 10,159,222	\$ 10,098,833
Other operating revenues	104,013	109,818	162,049
Total operating revenues	<u>10,672,898</u>	<u>10,269,040</u>	<u>10,260,882</u>
Operating Expenses			
Salaries and wages	4,461,274	4,573,012	4,378,146
Supplies and other	4,974,468	5,022,223	4,949,206
Depreciation and amortization	1,024,224	959,936	897,402
Total operating expenses	<u>10,459,966</u>	<u>10,555,171</u>	<u>10,224,754</u>
Operating Income (Loss)	<u>212,932</u>	<u>(286,131)</u>	<u>36,128</u>
Nonoperating Revenues (Expenses)			
Tax appropriations	365,155	391,502	399,736
Investment income	23,242	55,746	18,960
Contributions and grants	19,261	38,669	38,206
Contributions received from the Wilson Medical Center Foundation for operations	4,538	-	-
Interest expense	(700,531)	(709,956)	(693,470)
Other nonoperating revenues and expenses, net	-	(41,977)	-
Total nonoperating revenues (expenses)	<u>(288,335)</u>	<u>(266,016)</u>	<u>(236,568)</u>
Capital Gifts and Transfers			
Capital contributions, net	-	274,166	-
Contributions received from the Wilson Medical Center Foundation for property and equipment	31,585	-	-
Transfer to/from Neodesha Community Foundation	-	-	261,285
Transfer to Wilson Medical Center Foundation	-	(2,115,853)	-
Transfer to Wilson County	-	-	(374,872)
Total capital gifts and transfers	<u>31,585</u>	<u>(1,841,687)</u>	<u>(113,587)</u>
Decrease in Net Assets	<u>\$ (43,818)</u>	<u>\$ (2,393,834)</u>	<u>\$ (314,027)</u>

Operating Income and Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital also receives tax appropriations to provide additional resources to enable the facility to serve lower income and other residents.

The operating income for 2011 was \$212,932 compared to an operating loss of \$286,131 in 2010; an improvement of \$499,063. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$409,663 or 4.0%.
- A decrease in salaries and wages for the Hospital's employees of \$111,738 or 2.4%.
- A decrease in supplies and other expenses of \$47,755 or 1.0%.

Net patient service revenue increased primarily because of a large increase in outpatient Medicare revenue in the Hospital's wound care center.

Employee salaries and wages decreased in 2011 in connection with the several retirements and resignations of Hospital staff that were not replaced.

The decrease in supplies and other expenses was primarily the result of purchasing capital equipment to replace equipment being rented or charged for on a per use basis such as the CT scanner and ultrasound equipment.

Transfer to Wilson Medical Center Foundation

The Neodesha Community Foundation, Inc. (NCF) has been established to benefit the community of Neodesha. Certain assets received by NCF were intended to be used solely to benefit the Hospital. On behalf of the Hospital, a separate corporate entity, Wilson Medical Center Foundation (Foundation) was established during 2007 and the application to obtain Internal Revenue Code Section 501(c)3 status was approved during 2009. As a result of the establishment of the Foundation, the assets held by NCF on behalf of the Hospital were transferred to the Foundation on December 22, 2010.

The transfer consisted of the following:

Noncurrent cash and investments	\$ 1,215,686
Property and equipment, net	920,495
Liabilities	(20,328)
Net assets	(2,115,853)

The Foundation is a legally separate nonprofit corporation organized and operated for the exclusive benefit and support of the Hospital. The governing body of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the Hospital. Because these 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 Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and losses and nonoperating revenues and expenses for 2011, and 2010, discussed earlier, with one exception. Cash provided by operating activities increased in 2011 because of additional interim Medicare reimbursement from significantly higher outpatient Medicare charges. As noted above, the increase in interim reimbursement is expected to result in an increased liability in the 2011 Medicare cost report which is included in current liabilities.

Capital Assets

At the end of 2011, the Hospital had \$10,840,590 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011, the Hospital purchased new equipment costing \$898,034 compared to \$11,550 in 2010. Of the 2011 additions, \$613,883 was acquired through incursion of capital lease obligations. The Hospital has recently found it more economical to lease certain equipment principally due to low interest rates provided by local financial institutions.

Debt

At December 31, 2011, the Hospital had \$12,808,113 in revenue bonds, special assessments payable and capital lease obligations outstanding. Except for capital leases of \$613,883 initiated in 2011, the Hospital issued no new debt in 2011 and 2010. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Chief Financial Officer by telephoning 620.325.8388.

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	\$ 2,202,401	\$ 1,090,293
Short-term investments	250,000	500,000
Investments held by trustee for debt service	287,592	283,759
Patient accounts receivable, net	2,319,001	1,427,258
Estimated amounts due from third-party payers	225,000	330,000
Taxes receivable	20,705	21,052
Other receivables	28,826	22,830
Supplies	250,247	246,193
Prepaid expenses	117,618	93,093
Total current assets	5,701,390	4,014,478
Noncurrent Cash and Investments		
Held by trustee for debt service	853,640	852,525
Other	-	25,000
	853,640	877,525
Capital Assets, Net	10,840,590	10,960,468
Deferred Financing Costs	241,021	262,223
Total assets	\$ 17,636,641	\$ 16,114,694

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 534,758	\$ 377,773
Notes payable to Foundation	238,451	237,924
Accounts payable	1,041,990	978,984
Accrued interest payable	207,945	219,720
Salaries payable	118,466	157,002
Payroll taxes payable	50,705	12,860
Accrued vacation benefits	188,150	188,443
Estimated amounts due to third-party payers	<u>1,400,000</u>	<u>-</u>
Total current liabilities	<u>3,780,465</u>	<u>2,172,706</u>
Noncurrent Liabilities		
Long-term debt	12,273,355	12,301,898
Notes payable to Foundation	<u>36,073</u>	<u>49,524</u>
Total noncurrent liabilities	<u>12,309,428</u>	<u>12,351,422</u>
Total liabilities	<u>16,089,893</u>	<u>14,524,128</u>
Net Assets		
Invested in capital, net of related debt and payables	(1,709,447)	(1,739,148)
Restricted - expendable for		
Debt service	1,141,232	1,136,151
Unrestricted	<u>2,114,963</u>	<u>2,193,563</u>
Total net assets	<u>1,546,748</u>	<u>1,590,566</u>
Total liabilities and net assets	<u>\$ 17,636,641</u>	<u>\$ 16,114,694</u>

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson 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	\$ 10,568,885	\$ 10,159,222
Other	104,013	109,818
Total operating revenues	10,672,898	10,269,040
Operating Expenses		
Salaries and wages	4,461,274	4,573,012
Supplies and other	4,974,468	5,022,223
Depreciation and amortization	1,024,224	959,936
Total operating expenses	10,459,966	10,555,171
Operating Income (Loss)	212,932	(286,131)
Nonoperating Revenues (Expenses)		
Tax appropriations	365,155	391,502
Contributions and grants	19,261	38,669
Contributions received from the Wilson Medical Center		
Foundation for operations	4,538	-
Investment income	23,242	55,746
Other income	-	24,140
Interest expense	(700,531)	(709,956)
Other expense	-	(66,117)
Total nonoperating revenues (expenses)	(288,335)	(266,016)
Deficiency of Revenues Over Expenses Before Capital Contributions and Transfers	(75,403)	(552,147)
Capital contributions, net	-	274,166
Contributions received from the Wilson Medical Center		
Foundation for property and equipment	31,585	-
Transfer to Wilson Medical Center Foundation	-	(2,115,853)
Decrease in Net Assets	(43,818)	(2,393,834)
Net Assets, Beginning of Year	1,590,566	3,984,400
Net Assets, End of Year	\$ 1,546,748	\$ 1,590,566

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 11,182,142	\$ 9,798,471
Payments to suppliers	(4,940,041)	(4,893,520)
Payments to employees	(4,462,257)	(4,546,902)
Other receipts, net	98,017	105,092
	<u>1,877,861</u>	<u>463,141</u>
Net cash provided by operating activities		
Noncapital Financing Activities		
Noncapital appropriations - Wilson County	365,502	411,718
Noncapital contributions and grants	19,261	34,839
Foundation (2011) and NCF (2010) contributions	4,538	134,466
	<u>389,301</u>	<u>581,023</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Purchase of capital assets	(252,567)	(11,550)
Principal paid on capital lease obligations	(205,551)	(99,113)
Principal paid on long-term debt and notes payable	(277,924)	(262,418)
Interest paid on capital lease obligations	(24,209)	(22,487)
Interest paid on long-term debt	(683,976)	(687,807)
Increase in cash and investments held by trustee for debt service	(4,166)	2,150
	<u>(4,166)</u>	<u>2,150</u>
Net cash used in capital and related financing activities		
Investing Activities		
Proceeds from disposition of investments	275,000	500,000
Interest income	18,339	24,629
Increase in noncurrent cash and investments	-	(134,466)
	<u>293,339</u>	<u>390,163</u>
Net cash provided by investing activities		
Increase in Cash	1,112,108	353,102
Cash, Beginning of Year	<u>1,090,293</u>	<u>737,191</u>
Cash, End of Year	<u>\$ 2,202,401</u>	<u>\$ 1,090,293</u>

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 2,202,401	\$ 1,090,293
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 212,932	\$ (286,131)
Depreciation and amortization	1,024,224	959,936
Provision for uncollectible accounts	840,439	816,300
Changes in operating assets and liabilities		
Patient and other receivables	(1,738,178)	(481,050)
Estimated amounts due from/to third-party payers	1,505,000	(700,727)
Supplies	(4,054)	758
Prepaid expenses	(24,525)	(7,097)
Other assets	-	59,002
Accounts payable	63,006	76,040
Other accrued liabilities	(983)	26,110
Net cash provided by operating activities	\$ 1,877,861	\$ 463,141
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 613,883	\$ -
Noncash contributions related to Neodesha Community Foundation	\$ -	\$ 143,530
Transfer from Neodesha Community Foundation includes the following:		
Noncurrent cash and investments	\$ -	\$ 1,215,686
Property and equipment, net	-	920,495
Liabilities	-	(20,328)
Net assets	-	(2,115,853)

Wilson Medical Center Foundation
A Component Unit of Wilson County Hospital
d/b/a Wilson Medical Center
Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 406,464	\$ 382,400
Contributions receivable, net	67,909	117,191
Note and lease receivable from Hospital	274,524	287,448
Interest receivable	-	9,000
Restricted cash and certificates of deposit	320,173	322,783
Property and equipment, net of accumulated depreciation; 2011 - \$161,646, 2010 - \$121,349	880,198	920,495
Other investments	79,690	96,864
	\$ 2,028,958	\$ 2,136,181
Total assets	\$ 2,028,958	\$ 2,136,181
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 24,262	\$ 19,272
Accrued expenses	542	1,056
	24,804	20,328
Total liabilities	24,804	20,328
 Net Assets		
Unrestricted	1,616,072	1,675,879
Temporarily restricted	302,814	354,706
Permanently restricted	85,268	85,268
	2,004,154	2,115,853
Total net assets	2,004,154	2,115,853
Total liabilities and net assets	\$ 2,028,958	\$ 2,136,181

Wilson Medical Center Foundation
A Component Unit of Wilson County Hospital
d/b/a Wilson Medical Center

Statements of Activities

Years Ended December 31, 2011 and 2010

	2011	2010
Revenues, Gains and Other Support		
Medical office building rent	\$ 24,273	\$ -
Investment return	19,539	-
Contributions	8,803	-
Total revenues, gains and other support	52,615	-
Expenses (and Losses)		
Medical office building and other expenses	69,094	-
Depreciation	40,297	-
Unrealized loss on investments	18,800	-
Contributions to Wilson Medical Center for operations	4,538	-
Total expenses	132,729	-
Excess of Expenses Over Revenues	(80,114)	-
Contributions to Wilson Medical Center for property and equipment	(31,585)	-
Transfer from Neodesha Community Foundation	-	2,115,853
Change in Net Assets	(111,699)	2,115,853
Net Assets, Beginning of Year	2,115,853	-
Net Assets, End of Year	\$ 2,004,154	\$ 2,115,853

Wilson Medical Center Foundation
A Component Unit of Wilson County Hospital
d/b/a Wilson Medical Center
Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (80,114)	\$ -
Contributions to Wilson Medical Center for property and equipment	(31,585)	-
Net assets released from restriction used for operations	2,610	-
Net assets released from restriction used for purchase of property and equipment	49,282	-
Transfer from Neodesha Community Foundation	-	2,115,853
Increase (decrease) in unrestricted net assets	(59,807)	2,115,853
Temporarily Restricted Net Assets		
Net assets released from restriction	(51,892)	-
Change in Net Assets	(111,699)	2,115,853
Net Assets, Beginning of Year	2,115,853	-
Net Assets, End of Year	\$ 2,004,154	\$ 2,115,853

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson 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

The financial statements of Wilson County Hospital d/b/a Wilson Medical Center (Hospital), a component unit of Wilson County (County), include the accounts of the Hospital and Get Fit, L.C. (Wellness Center) which is a blended component unit of the Hospital. All significant intercompany accounts have been eliminated.

The Hospital is owned by Wilson County and governed by a Board of Trustees appointed by the Board of County Commissioners. The Hospital, located in Neodesha, Kansas, provides acute, skilled and intermediate care services.

The Wellness Center is a limited liability company (LLC) organized to manage, operate and conduct the operations of a wellness center in Neodesha, Kansas, and to provide wellness and health related education services to the public, as well as the promotion of health and wellness. The Wellness Center is a wholly-owned subsidiary of the Hospital. As a single member LLC, the Wellness Center is disregarded for federal tax purposes.

The Neodesha Community Foundation, Inc. (NCF) has been established to benefit the community of Neodesha. Certain assets received by NCF were intended to be used solely to benefit the Hospital. On behalf of the Hospital, a separate corporate entity, Wilson Medical Center Foundation (Foundation) was established during 2007 and the application to obtain Internal Revenue Code Section 501(c)3 status was approved during 2009. As a result of the establishment of the Foundation, the assets held by NCF on behalf of the Hospital were transferred to the Foundation on December 22, 2010.

The Foundation is a legally separate nonprofit corporation organized and operated for the exclusive benefit and support of the Hospital. The governing body of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the Hospital. Because these 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.

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

Wilson County Hospital d/b/a Wilson Medical Center
A Component Unit of Wilson County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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 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, there were no cash equivalents.

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

Investments and Investment Income

Investments consist of certificates of deposit, carried at amortized cost, and U.S. obligation money market funds carried at fair value. Fair value is determined using quoted market prices.

Investment income consists primarily of interest income.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible

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accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Supplies

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

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
Fixed equipment	5 – 20 years
Moveable equipment	5 – 15 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method.

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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.

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, including amounts deposited with trustees as required by bond indentures. 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.

Net Patient Service Revenue

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

Charity Care

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

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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.

Foundation

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Hospital has not received or recognized any revenue for the incentive payments in the accompanying financial statements.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

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Subsequent Events

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

Note 2: Deposits and Investments

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, \$2,206,373 and \$1,360,298 of the Hospital's bank balances of \$2,506,742 and \$1,626,250 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution	\$ 2,206,373	\$ 1,360,298

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in a limited extent in corporate bonds and equity securities.

At December 31, 2011 and 2010, in connection with the Wilson County, Kansas Hospital Revenue Bonds, Series 2007 and 2006 (see *Notes 4 and 7*), the Hospital has invested in U.S. obligations money market funds in the amount of \$1,141,232 and \$776,151, respectively, available upon demand.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2011 and 2010, as follows:

	2011	2010
Carrying value		
Bank deposits	\$ 2,451,709	\$ 1,614,681
Cash on hand and change funds	692	612
Cash and investments held by trustee for debt service	1,141,232	1,136,151
	\$ 3,593,633	\$ 2,751,444
 Included in the following balance sheet captions		
Cash	\$ 2,202,401	\$ 1,090,293
Short-term investments	250,000	500,000
Investments held by trustee for debt service	287,592	283,759
Noncurrent cash and investments		
Certificates of deposit held by trustee for debt service	-	360,000
Investments held by trustee for debt service	853,640	492,392
Certificate of deposit	-	25,000
	\$ 3,593,633	\$ 2,751,444

Note 3: Patient Accounts Receivable, Net/Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of revenues, expenses and changes in net assets as a component of net patient service revenue.

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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 one hundred one percent (101%) of allowable 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. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Approximately 74% and 76% 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.

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	\$ 2,322,657	\$ 954,149
Medicaid	136,909	97,471
Blue Cross	341,411	315,574
Other third-party payers	367,603	327,586
Self-pay	681,475	700,077
	<u>3,850,055</u>	<u>2,394,857</u>
Allowance for uncollectible accounts	(435,830)	(370,558)
Allowance for contractual adjustments	<u>(1,095,224)</u>	<u>(597,041)</u>
	<u>\$ 2,319,001</u>	<u>\$ 1,427,258</u>

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The mix of accounts receivable, net of allowance for uncollectible accounts and contractual allowances at December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Medicare	65%	41%
Medicaid	2%	3%
Blue Cross	9%	13%
Other third-party payers	13%	22%
Self-pay	11%	21%
	<u>100%</u>	<u>100%</u>

Net patient service revenue for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 18,895,469	\$ 15,797,521
Less:		
Contractual adjustments	(7,428,776)	(4,749,941)
Provision for uncollectible accounts	(840,439)	(816,300)
Charity care	(57,369)	(72,058)
Net patient service revenue	<u>\$ 10,568,885</u>	<u>\$ 10,159,222</u>

Note 4: Cash and Investments Held By Trustee For Debt Service

Cash and investments held by trustee for debt service consist of certificates of deposit and U.S. obligations money market funds relative to the Wilson County, Kansas, Hospital Revenue Bonds, Series 2007 and 2006 and are summarized as follows as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Debt service reserve fund	\$ 853,640	\$ 852,392
Principal and interest funds	287,592	283,759
	<u>1,141,232</u>	<u>1,136,151</u>
Accrued interest receivable	-	133
	<u>1,141,232</u>	<u>1,136,284</u>
Less current portion	(287,592)	(283,759)
	<u>\$ 853,640</u>	<u>\$ 852,525</u>

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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	\$ 143,406	\$ -	\$ -	\$ 143,406
Land improvements	817,986	-	-	817,986
Buildings	10,917,781	-	-	10,917,781
Fixed equipment	520,398	-	-	520,398
Moveable equipment	1,457,032	898,034	-	2,355,066
	<u>13,856,603</u>	<u>898,034</u>	<u>-</u>	<u>14,754,637</u>
Less accumulated depreciation				
Land improvements	201,282	84,426	-	285,708
Buildings	1,718,269	606,447	-	2,324,716
Fixed equipment	164,618	56,327	-	220,945
Moveable equipment	811,966	270,712	-	1,082,678
	<u>2,896,135</u>	<u>1,017,912</u>	<u>-</u>	<u>3,914,047</u>
Capital Assets, Net	<u>\$ 10,960,468</u>	<u>\$ (119,878)</u>	<u>\$ -</u>	<u>\$ 10,840,590</u>
	2010			
	Beginning Balance	Additions	Transfer to Foundation	Ending Balance
Land	\$ 143,406	\$ -	\$ -	\$ 143,406
Land improvements	817,986	-	-	817,986
Buildings	11,876,074	-	(958,293)	10,917,781
Fixed equipment	520,398	-	-	520,398
Moveable equipment	1,529,033	11,550	(83,551)	1,457,032
	<u>14,886,897</u>	<u>11,550</u>	<u>(1,041,844)</u>	<u>13,856,603</u>
Less accumulated depreciation				
Land improvements	116,855	84,427	-	201,282
Buildings	1,170,384	638,390	(90,505)	1,718,269
Fixed equipment	108,291	56,327	-	164,618
Moveable equipment	668,152	174,657	(30,843)	811,966
	<u>2,063,682</u>	<u>953,801</u>	<u>(121,348)</u>	<u>2,896,135</u>
Capital Assets, Net	<u>\$ 12,823,215</u>	<u>\$ (942,251)</u>	<u>\$ (920,496)</u>	<u>\$ 10,960,468</u>

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Note 6: Notes Payable to Foundation

Notes payable to Foundation activity for the years ended December 31, 2011 and 2010, was:

2011						
Beginning Balance	Deductions	Additions	Ending Balance	Amounts Due Within One Year	Long-term Portion	
4% Note payable to Wilson Medical Center Foundation, collateralized by X-ray equipment	\$ 62,448	\$ (12,924)	\$ -	\$ 49,524	\$ 13,451	\$ 36,073
4% Note payable to Wilson Medical Center Foundation for operations	225,000	-	-	225,000	225,000	-
	<u>\$ 287,448</u>	<u>\$ (12,924)</u>	<u>\$ -</u>	<u>\$ 274,524</u>	<u>\$ 238,451</u>	<u>\$ 36,073</u>

2010						
Beginning Balance	Deductions	Transfer from NCH	Ending Balance	Amounts Due Within One Year	Long-term Portion	
4% Note payable to Wilson Medical Center Foundation, collateralized by X-ray equipment	\$ -	\$ -	\$ 62,448	\$ 62,448	\$ 12,924	\$ 49,524
4% Note payable to Wilson Medical Center Foundation for operations	-	-	225,000	225,000	225,000	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,448</u>	<u>\$ 287,448</u>	<u>\$ 237,924</u>	<u>\$ 49,524</u>

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The debt service requirements for the notes payable as of December 31, 2011, are as follows:

	Principal	Interest
Year Ending December 31,		
2012	\$ 238,451	\$ 10,736
2013	13,999	1,188
2014	14,569	618
2015	7,505	88
	\$ 274,524	\$ 12,630

Note 7: Long-term Obligations

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

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-term Portion
4.65% - 5.50% Hospital Revenue Bonds, Series 2007, issued by Wilson County, Kansas, with varying maturities from September 2012 through September 2017	\$ 1,560,000	\$ -	\$ (215,000)	\$ 1,345,000	\$ 225,000	\$ 1,120,000
4.95% - 6.20% Hospital Revenue Bonds, Series 2006, issued by Wilson County, Kansas, with varying maturities from September 2017 through September 2036	9,865,000	-	-	9,865,000	-	9,865,000
Special assessments payable	780,000	-	(50,000)	730,000	50,000	680,000
Original issue premium on above bonds	136,787	-	(14,890)	121,897	13,441	108,456
	12,341,787	-	(279,890)	12,061,897	288,441	11,773,456
Capital lease obligations	337,884	613,883	(205,551)	746,216	246,317	499,899
	\$ 12,679,671	\$ 613,883	\$ (485,441)	\$ 12,808,113	\$ 534,758	\$ 12,273,355

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	2010					
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	Long-term Portion
4.65% - 5.75% Hospital Revenue Bonds, Series 2007, issued by Wilson County, Kansas, with varying maturities from September 2011 through September 2017	\$ 1,765,000	\$ -	\$ (205,000)	\$ 1,560,000	\$ 215,000	\$ 1,345,000
4.95% - 6.20% Hospital Revenue Bonds, Series 2006, issued by Wilson County, Kansas, with varying maturities from September 2017 through September 2036	9,865,000	-	-	9,865,000	-	9,865,000
Special assessments payable	825,000	-	(45,000)	780,000	50,000	730,000
Original issue premium on above bonds	153,061	-	(16,274)	136,787	14,890	121,897
	12,608,061	-	(266,274)	12,341,787	279,890	12,061,897
Capital lease obligations	436,997	-	(99,113)	337,884	97,883	240,001
	<u>\$ 13,045,058</u>	<u>\$ -</u>	<u>\$ (365,387)</u>	<u>\$ 12,679,671</u>	<u>\$ 377,773</u>	<u>\$ 12,301,898</u>

In November 2006, Wilson County, Kansas, issued \$9,865,000 Hospital Revenue Bonds, Series 2006 (Bonds) at a premium of \$133,202. In January 2007, Wilson County, Kansas, issued \$2,135,000 Hospital Revenue Bonds, Series 2007 (Bonds) at a premium of \$76,249. The Bonds are payable solely from the gross revenues of the Hospital and funds held by the Bond Trustee. The Bonds do not constitute a general obligation of Wilson County.

The Bond indentures include various covenants to be met including certain measures of financial performance. The Hospital was not in compliance with the debt covenant at December 31, 2010, requiring audited financial statements to be provided to the Bond Trustee no more than 150 days after the last day for such fiscal year. The Hospital's audited financial statements as of and for the year ended December 31, 2010, were provided to the Bond Trustee on June 3, 2011.

The Series 2007 Bonds scheduled to mature September 1, 2015, and thereafter may be redeemed on or after September 1, 2014, in whole or part at a redemption price of 100% of the principal amount then outstanding plus accrued interest.

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In connection with the new hospital construction, utility construction costs were incurred on behalf of the Hospital and financed by the City of Neodesha (City). The City will be reimbursed for the utility construction costs plus interest through special tax assessments levied on the real property on which the new hospital is located. The special assessments were levied in 2009 and are to be repaid over a 15-year period.

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

	Bonds		Special Assessment Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
Year Ending December 31,						
2012	\$ 225,000	\$ 623,838	\$ 50,000	\$ 29,115	\$ 246,317	\$ 21,194
2013	240,000	611,463	50,000	27,490	167,014	13,781
2014	250,000	598,263	50,000	25,740	166,639	8,096
2015	265,000	584,513	55,000	23,990	114,953	3,192
2016	280,000	572,191	55,000	22,065	51,293	527
2017-2021	1,575,000	2,644,630	320,000	75,113	-	-
2022-2026	2,055,000	2,153,010	150,000	9,788	-	-
2027-2031	2,740,000	1,470,719	-	-	-	-
2032-2036	3,580,000	623,280	-	-	-	-
	<u>\$ 11,210,000</u>	<u>\$ 9,881,907</u>	<u>\$ 730,000</u>	<u>\$ 213,301</u>	<u>\$ 746,216</u>	<u>\$ 46,790</u>

The following is an analysis of the financial presentation of the assets held under capital lease at December 31, 2011 and 2010:

	2011	2010
Moveable equipment	\$ 1,186,523	\$ 572,640
Less accumulated depreciation	<u>(413,330)</u>	<u>(278,928)</u>
	<u>\$ 773,193</u>	<u>\$ 293,712</u>

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Note 8: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) Employee Pension Plan, 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 Kansas Public Employees Retirement System, 611 South Kansas, Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

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 of 7.34% from January 1, 2011 to December 31, 2011, and an average rate of 7.34% and 6.74% of annual covered payroll for 2011 and 2010, respectively. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. The Hospital's contributions to the plan for the years ended December 31, 2011 and 2010, were \$303,609 and \$283,371, respectively, equal to the statutory required contributions for each year. Contributions actually made by plan members were \$180,018 and \$180,376 for the years ended December 31, 2011 and 2010, respectively. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 9: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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.

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Note 10: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents hospitals with unprecedented 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 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 investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 11: 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 the Hospital's 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.

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Note 12: Wilson Medical Center 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.

Contributions Receivable, Net

Contributions receivable, net consisted of the following at December 31, 2011 and 2010:

	2011	2010
Due within one year	\$ 46,012	\$ 55,613
Due in one to five years	47,335	95,989
Due in more than five years	2,553	4,311
	95,900	155,913
Allowance for uncollectible contributions	(20,666)	(23,338)
Unamortized discount	(7,325)	(15,384)
	\$ 67,909	\$ 117,191

The discount rate for 2011 and 2010 was 6%.

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Net Assets

The following classifications reflect the nature of restrictions on temporarily and permanently restricted net assets at December 31, 2011 and 2010:

	2011	
	Temporarily Restricted	Permanently Restricted
Scholarships	\$ 234,905	\$ -
Capital assets	67,909	-
Endowment	-	85,268
	\$ 302,814	\$ 85,268

	2010	
	Temporarily Restricted	Permanently Restricted
Scholarships	\$ 237,515	\$ -
Capital assets	117,191	-
Endowment	-	85,268
	\$ 354,706	\$ 85,268