Stevens County Hospital
A Component Unit of Stevens County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

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A Component Unit of Stevens County, Kansas
December 31, 2012 and 2011

Contents

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Independent Auditor's Report

Board of Directors
Stevens County Hospital
Hugoton, Kansas

We have audited the accompanying financial statements of Stevens County Hospital, a component unit of Stevens County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stevens County Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
April 7, 2014

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 420,022	$ 1,236,284
Short-term certificates of deposit	314,228	632,005
Patient accounts receivable, net of allowance; 2012 - $393,000, 2011 - $465,000	1,785,042	1,155,190
Accounts receivable - retail pharmacy	85,003	85,193
Electronic Health Records Incentive receivable	2,480,741	-
Estimated amounts due from third-party payers	365,000	228,000
Supplies	285,252	300,992
Prepaid expenses and other	78,036	23,743
Total current assets	5,813,324	3,661,407
Capital Assets, Net	24,560,005	7,486,801
Total assets	$ 30,373,329	$ 11,148,208
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 585,643	$ 650,637
Accounts payable	544,987	335,516
Accrued expenses	867,168	824,563
Total current liabilities	1,997,798	1,810,716
Long-term Debt	1,688,212	809,305
Total liabilities	3,686,010	2,620,021
Net Position		
Net investment in capital assets	22,286,150	6,026,859
Unrestricted	4,401,169	2,501,328
Total net position	26,687,319	8,528,187
Total liabilities and net position	$ 30,373,329	$ 11,148,208

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - $48,000, 2011 - $255,000	$ 14,012,107	$ 10,617,852
Retail pharmacy	1,668,663	1,523,039
Other	52,727	49,946
Total operating revenues	15,733,497	12,190,837
Operating Expenses		
Salaries and wages	7,734,243	6,965,438
Employee benefits	2,163,154	2,468,369
Purchased services and professional fees	1,393,960	1,250,173
Supplies and other	2,487,972	2,384,648
Retail pharmacy supplies	1,273,714	1,174,859
Depreciation and amortization	1,056,928	531,834
Total operating expenses	16,109,971	14,775,321
Operating Loss	(376,474)	(2,584,484)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	2,100,000	1,900,000
Interest income	21,857	21,011
Interest expense	(65,016)	(9,789)
Noncapital grants and gifts	24,323	17,542
Other	6,845	3,058
Total nonoperating revenues	2,088,009	1,931,822
Excess (Deficiency) of Revenues Over Expenses Before Transfer	1,711,535	(652,662)
Transfer of old Pioneer Manor to Stevens County	(1,453,076)	-
Transfer of new Pioneer Manor from Stevens County	17,900,673	-
Increase (Decrease) in Net Position	18,159,132	(652,662)
Net Position, Beginning of Year	8,528,187	9,180,849
Net Position, End of Year	$ 26,687,319	$ 8,528,187

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 10,764,704	$ 10,027,360
Payments to suppliers and contractors	(4,984,728)	(4,882,677)
Payments to and on behalf of employees	(9,854,792)	(9,384,792)
Retail pharmacy receipts	1,668,663	1,523,039
Other receipts, net	52,727	49,946
Net cash used in operating activities	(2,353,426)	(2,667,124)
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	2,100,000	1,900,000
Noncapital grants and gifts	24,323	17,542
Other	6,845	3,058
Net cash provided by noncapital financing activities	2,131,168	1,920,600
Capital and Related Financing Activities		
Principal paid on long-term debt	(650,637)	(258,962)
Interest paid on long-term debt	(65,016)	(9,789)
Purchase of capital assets	(217,985)	(393,104)
Net cash used in capital and related financing activities	(933,638)	(661,855)
Investing Activities		
Interest income received	21,857	21,011
Change in short-term certificates of deposit	317,777	(630,117)
Net cash provided by (used in) investing activities	339,634	(609,106)
Decrease in Cash and Cash Equivalents	(816,262)	(2,017,485)
Cash and Cash Equivalents, Beginning of Year	1,236,284	3,253,769
Cash and Cash Equivalents, End of Year	$ 420,022	$ 1,236,284

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$ (376,474)	$ (2,584,484)
Depreciation and amortization	1,056,928	531,834
Changes in operating assets and liabilities		
Patient accounts receivable, net	(629,662)	137,508
Estimated amounts due from and to Medicare	(137,000)	(728,000)
Electronic Health Records Incentive receivable	(2,480,741)	-
Accounts payable and accrued expenses	252,076	85,632
Supplies and prepaid expenses	(38,553)	(109,614)
Net cash used in operating activities	$ (2,353,426)	$ (2,667,124)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ 1,464,550	$ 1,435,450
Capital assets tranfered from Stevens County	$ 17,900,673	$ -
Capital assets tranfered to Stevens County	$ (1,453,076)	$ -

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and a home health agency in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific, such as intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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, 2012 and 2011, cash equivalents consisted primarily of certificates of deposit.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing accounts beginning December 31, 2010 through December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

Intergovernmental Revenue

The Hospital received approximately 12% and 13% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2012 and 2011, respectively. One hundred percent of these funds were used to support operations in both years.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Workers' Risk Cooperative for Counties. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported for both workers' compensation and property and casualty risks.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	10 – 40 years
Building	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Compensated Absences

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

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purpose or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

Income Taxes

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

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 (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. 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 (CMS). 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 has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of $2,480,741, which is included in net patient service revenue in the statement of operations as of the year ended December 31, 2012.

Subsequent Events

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

Note 2: Net Patient Service Revenue

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

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

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid rural health clinic services are reimbursed under a cost-based methodology. The Hospital and rural health clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactive to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately $358,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 54% and 55% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement of the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during the PPACA's implementation.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas, bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2012 and 2011, respectively, $256,532 and $1,341,232 of the Hospital's bank balances of $793,367 and $1,884,496 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 256,532	$ 1,341,232

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	$ 734,250	$ 1,868,289
Included in the following balance sheet captions		
Cash and cash equivalents	$ 420,022	$ 1,236,284
Short-term certificates of deposit	314,228	632,005
	$ 734,250	$ 1,868,289

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011, consisted of:

	2012	2011
Medicare	$ 926,357	$ 444,996
Medicaid	231,069	167,852
Blue Cross	227,461	218,742
Other third-party payers	242,117	307,600
Patients	551,038	481,000
	2,178,042	1,620,190
Less allowance for uncollectible accounts	393,000	465,000
	$ 1,785,042	$ 1,155,190

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 81,714	$ -	$ (3,608)	$ -	$ 78,106
Buildings	9,817,506	17,873,825	(4,368,505)	1,241,281	24,564,107
Fixed equipment	1,625,990	105,857	(49,916)	(1,241,281)	440,650
Major moveable equipment	4,476,765	1,576,678	(881,763)	1,462,298	6,633,978
Construction in progress	1,435,450	26,848	-	(1,462,298)	-
	17,437,425	19,583,208	(5,303,792)	-	31,716,841
Less accumulated depreciation					
Land improvements	50,361	4,027	(3,608)	-	50,780
Buildings	4,404,917	464,040	(2,898,820)	1,212,834	3,182,971
Fixed equipment	1,486,232	15,815	(41,263)	(1,212,834)	247,950
Major moveable equipment	4,009,114	573,046	(907,025)	-	3,675,135
	9,950,624	1,056,928	(3,850,716)	-	7,156,836
Capital assets, net	$ 7,486,801	$18,526,280	$(1,453,076)	$ -	$24,560,005

Stevens County constructed and paid (approximately $17,900,000, shown as a transfer from the County on the statement of revenues, expenses and changes in net position) for the building of a new long-term care facility (Pioneer Manor). Upon completion of the new Pioneer Manor building, the Hospital moved the residents from the old building to the new building and then transferred the old building, which had a net book value of $1,453,076 (shown as a transfer to the County on the statement of revenues, expenses and changes in net position). These transfers occurred in the fall of 2012.

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 81,714	$ -	$ -	$ -	$ 81,714
Buildings	9,550,130	267,376	-	-	9,817,506
Fixed equipment	1,620,186	5,804	-	-	1,625,990
Major moveable equipment	4,356,841	119,924	-	-	4,476,765
Construction in progress	-	1,435,450	-	-	1,435,450
	15,608,871	1,828,554	-	-	17,437,425
Less accumulated depreciation					
Land improvements	46,076	4,285	-	-	50,361
Buildings	4,163,202	241,715	-	-	4,404,917
Fixed equipment	1,461,895	24,337	-	-	1,486,232
Major moveable equipment	3,758,485	250,629	-	-	4,009,114
	9,429,658	520,966	-	-	9,950,624
Capital assets, net	$ 6,179,213	$ 1,307,588	$ -	$ -	$ 7,486,801

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides $200,000 of coverage for each medical incident and $600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $800,000 of coverage for each medical incident and $2,400,000 of aggregate coverage for each policy year.

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

Note 7: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable - County	$ 60,000	$ -	$ 20,000	$ 40,000	$ 20,000
Capital lease obligations	1,399,942	1,464,550	630,637	2,233,855	565,643
Total long-term debt	$ 1,459,942	$ 1,464,550	$ 650,637	$ 2,273,855	$ 585,643

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

Revenue Bonds Payable

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

Note Payable – County

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

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	$ 20,000	$ 20,000	$ -
2014	20,000	20,000	-
	$ 40,000	$ 40,000	$ -

Capital Lease Obligations

The Hospital is obligated under leases for equipment and software that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Hospital. Assets under capital leases at December 31, 2012 and 2011, totaled $2,361,408 and $1,486,617, respectively, net of accumulated depreciation of $309,942 and $460,505, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 3.25% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	$ 629,855
2014	629,855
2015	629,855
2016	487,078
Total minimum lease payments	2,376,643
Less amount representing interest	142,788
Present value of future minimum lease payments	$ 2,233,855

The Hospital entered into a capital lease agreement with Western State Bank for the purchase of their EHR system in September 2011. Monthly payments of $52,488, which include interest, began in November 2011 and will continue through October 2016.

Note 8: Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3% and 4%, respectively, for both 2012 and 2011. Contributions actually made by plan members and the Hospital aggregated $132,675 and $176,104 during 2012 and $118,312 and $160,346 during 2011, respectively.

Note 9: 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 10: Subsequent Events

USDA Loan

The Hospital entered into a loan in August 2013 in the amount of $292,800 for the purchase of new radiology equipment. Payments will be approximately $2,700 per month, starting in September 2013, and payable over a 120-month term at an interest rate of 2%.