

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LOGAN COUNTY HOSPITAL
DECEMBER 31, 2011 AND 2010

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LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2011 and 2010

Our discussion and analysis of the financial performance of Logan County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2011 and 2010. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net assets decreased during 2011 and increased during 2010 with a \$90,820 or 2.6 percent decrease in 2011 and a \$179,385 or 5.3 percent increase in 2010.

The Hospital reported operating losses of \$387,591 and \$220,010 for 2011 and 2010, respectively.

Using these financial statements

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 financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

One of the most important questions asked about the 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. For purposes of these two statements, 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 net assets - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

Assets, liabilities, and net assets

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 2,978,591	\$ 2,747,934	\$ 2,032,891
Assets limited as to use	875,680	1,012,521	1,175,094
Capital assets, net	1,444,802	1,560,820	1,759,248
Other assets	<u>27,000</u>	<u>27,000</u>	<u>41,638</u>
 Total assets	 <u>\$ 5,326,073</u>	 <u>\$ 5,348,275</u>	 <u>\$ 5,008,871</u>
Liabilities			
Current liabilities	\$ 1,428,356	\$ 1,271,405	\$ 962,897
Long-term obligations	<u>440,458</u>	<u>528,791</u>	<u>677,280</u>
 Total liabilities	 <u>\$ 1,868,814</u>	 <u>\$ 1,800,196</u>	 <u>\$ 1,640,177</u>
 Net assets	 <u>\$ 3,457,259</u>	 <u>\$ 3,548,079</u>	 <u>\$ 3,368,694</u>

In aggregate, the Hospital's unrestricted cash and invested cash (including limited use assets held by the Board of Trustees) total \$1,019,348 and \$1,603,483 as of December 31, 2011 and 2010, respectively. These represent 37 days and 66 days, respectively, of average cash expenses during each of the years then ended. The median value for similar hospitals is 110 days.

The Hospital's net patient accounts receivable were 84 percent of current assets as of December 31, 2011, 63 percent as of December 31, 2010, and 69 percent as of December 31, 2009. The average number of days of net patient revenue represented by them was 96 days, 73 days, and 65 days as of December 31, 2011, 2010, and 2009, respectively. The median value for similar hospitals is 58 days.

At the end of 2011, the Hospital has \$1,444,802 invested in capital assets, net of accumulated depreciation. This is \$116,018 less than at the end of 2010. The value of new capital assets placed in service totaled \$196,695, \$147,453, and \$28,245 during 2011, 2010, and 2009, respectively.

The Hospital financed \$92,202 and \$17,300 of equipment acquisitions with capital lease obligations during 2011 and 2010, respectively.

The Hospital's net assets decreased during 2011 and increased during 2010 (a decrease of \$90,820 or 2.6 percent during 2011 and an increase of \$179,385 or 5.3 percent during 2010). The percentage of total assets financed with net assets, or equity, was 64.9 percent, 66.3 percent, and 67.3 percent as of December 31, 2011, 2010, and 2009, respectively.

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

Operating results and changes in net assets

The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 9,862,697	\$ 8,968,163	\$ 8,175,827
Operating expenses	<u>10,250,288</u>	<u>9,188,173</u>	<u>8,627,415</u>
Operating loss	(387,591)	(220,010)	(451,588)
Interest expense	(31,397)	(37,362)	(44,053)
County tax proceeds	270,000	276,118	270,000
Other nonoperating revenues	58,168	57,581	66,193
Capital grants and contributions	<u> </u>	<u>103,058</u>	<u>11,875</u>
Change in net assets	<u>\$ (90,820)</u>	<u>\$ 179,385</u>	<u>\$ (147,573)</u>

The first, and most significant, component of the overall change in the Hospital's net assets is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Inpatient services	\$ 4,390,662	\$ 3,629,615	\$ 3,526,566
Nursing facility services	2,332,161	2,251,516	1,822,198
Outpatient services	6,080,531	5,781,110	5,564,383
Rural health clinic services	<u>768,343</u>	<u>450,770</u>	<u> </u>
Gross patient service revenue	13,571,697	12,113,011	10,913,147
Contractual adjustments	(3,787,256)	(3,252,762)	(3,063,713)
Medicaid DSH payments	143,758	215,245	269,790
Provision for bad debts	<u>(390,048)</u>	<u>(406,747)</u>	<u>(284,900)</u>
Net patient service revenue	<u>\$ 9,538,151</u>	<u>\$ 8,668,747</u>	<u>\$ 7,834,324</u>

Gross revenues from inpatient services increased 21.0 percent during 2011 and increased 2.9 percent during 2010. Total patient days increased 18.5 percent during 2011 and increased by 10.3 percent during 2010. Charge rate increases accounted for much of the rest of the variation in gross revenues from inpatient services during each of those years. Gross revenues from nursing facility services rendered at the Logan County Manor increased 3.6 percent and increased 23.6 percent during 2011 and 2010, respectively. Those changes were driven by

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2011 and 2010

changes in the numbers of residents and by increases in charge rates. The resident days at the Manor increased by 1.0 percent during 2011 and increased by 14.7 percent during 2010. Average charge rates increased by 1.9 percent and 7.7 percent during 2011 and 2010, respectively. Gains occurred for revenues from outpatient services (5.2 percent and 3.9 percent during 2011 and 2010, respectively) as a result of changes in outpatient volume and price increases. The Hospital also assumed operations of a rural health clinic as of June 1, 2010.

The Hospital has agreements with various third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 26.8 percent, 25.1 percent, and 25.6 percent during 2011, 2010, and 2009, respectively. These values are below those for similar hospitals (the median value is 35.2 percent) because only minimal adjustments are incurred for nursing facility services and those services account for approximately one-sixth of the Hospital's gross revenues. The Hospital's contractual adjustments for hospital services only were 36.8 percent, 32.9 percent, and 30.7 percent of gross revenue during 2011, 2010, and 2009, respectively.

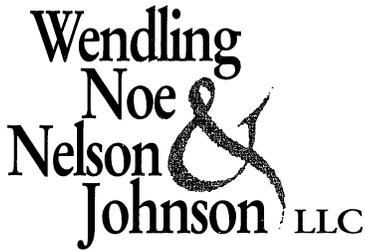
The provision for bad debts represented 2.9 percent, 3.4 percent, and 2.6 percent of gross patient service revenue during 2011, 2010, and 2009, respectively. The Hospital's bad debt percentages are well below those for similar hospitals.

Employee salaries and wages increased by \$347,409 or 7.3 percent during 2011 and by \$643,229 or 15.7 percent during 2010. These changes are functions of changes in numbers of employees and in pay rates. Total full-time equivalent employees increased by 4.7 percent and 1.9 percent during 2011 and 2010, respectively. Average pay rates increased by 2.5 percent and 13.6 percent during 2011 and 2010, respectively. The increases during 2010 were mostly due to the addition of a rural health clinic as of June 1, 2010.

Supplies and other expenses increased by \$652,919 or 22.4 percent during 2011. Contract labor costs increased by \$310,306 (104.3 percent). There was an \$80,270 increase in physician recruitment costs. This was also the first year for the new nursing facility provider assessment program and the Hospital incurred a tax of \$71,813 for that program. All other supplies and other expenses increased by \$190,530 or 6.5 percent during 2011.

Total supplies and other expenses decreased by \$289,053 or 9.0 percent during 2010. Contract labor costs were reduced by \$155,243. Emergency room physician coverage costs were reduced by \$183,224 because the physicians became employees of the Hospital on June 1, 2010 (compensation for this service is in salaries and wages after they became employees). All other supplies and other expenses increased by \$49,414 or 1.5 percent during 2010.

The changes for both years in supplies and other expenses are consistent with the patient volume gains and losses experienced by the Hospital combined with the general rate of health care inflation.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Logan County Hospital

We have audited the accompanying financial statements of the business-type activity of Logan County Hospital (the Hospital) as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Logan County Hospital, as of December 31, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows 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 management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such 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. 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 audit 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.

Wendling Roe Nelson & Johnson LLC
Topeka, Kansas
April 9, 2012

FINANCIAL STATEMENTS

LOGAN COUNTY HOSPITAL

BALANCE SHEETS

December 31,

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash	\$ 143,668	\$ 590,962
Patient accounts receivable	2,497,278	1,732,672
County tax proceeds receivable	1,331	232
Estimated third-party payor settlements		82,852
Inventories	233,334	212,758
Prepaid expenses	<u>102,980</u>	<u>128,458</u>
Total current assets	2,978,591	2,747,934
ASSETS LIMITED AS TO USE		
Held by Board of Trustees	875,680	1,012,521
CAPITAL ASSETS - NET		
	1,444,802	1,560,820
OTHER ASSETS		
Advances to medical students	<u>27,000</u>	<u>27,000</u>
Total assets	<u>\$ 5,326,073</u>	<u>\$ 5,348,275</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 176,452	\$ 161,945
Accounts payable	275,642	218,052
Estimated third-party payor settlements	240,341	
Accrued salaries, wages, and benefits	267,360	399,451
Deferred revenue	38,140	50,290
Accrued compensated absences	420,396	430,768
Accrued interest payable	<u>10,025</u>	<u>10,899</u>
Total current liabilities	1,428,356	1,271,405
LONG-TERM OBLIGATIONS, less current maturities		
	<u>440,458</u>	<u>528,791</u>
Total liabilities	<u>1,868,814</u>	<u>1,800,196</u>
NET ASSETS		
Invested in capital assets - net of related debt	827,892	870,084
Unrestricted	<u>2,629,367</u>	<u>2,677,995</u>
Total net assets	<u>3,457,259</u>	<u>3,548,079</u>
Total liabilities and net assets	<u>\$ 5,326,073</u>	<u>\$ 5,348,275</u>

LOGAN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Operating revenues		
Net patient service revenue	\$ 9,538,151	\$ 8,668,747
Other revenue	324,546	299,416
	<hr/>	<hr/>
Total operating revenues	9,862,697	8,968,163
Operating expenses		
Salaries and wages	5,088,038	4,740,629
Employee benefits	1,286,847	1,188,800
Supplies and other	3,565,783	2,912,864
Depreciation and amortization	309,620	345,880
	<hr/>	<hr/>
Total operating expenses	10,250,288	9,188,173
Operating loss	<u>(387,591)</u>	<u>(220,010)</u>
Nonoperating revenues		
County tax proceeds	270,000	276,118
Interest income	20,180	22,133
Interest expense	(31,397)	(37,362)
Noncapital grants and contributions	31,457	26,287
Oil royalties	9,224	8,311
Gain (loss) on disposal of equipment	(2,693)	850
	<hr/>	<hr/>
Total nonoperating revenues	296,771	296,337
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	<u>(90,820)</u>	<u>76,327</u>
Capital grants and contributions		103,058
		<hr/>
Change in net assets	(90,820)	179,385
Net assets at beginning of year	<u>3,548,079</u>	<u>3,368,694</u>
Net assets at end of year	<u>\$ 3,457,259</u>	<u>\$ 3,548,079</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 9,087,283	\$ 8,577,913
Payments to or on behalf of employees	(6,517,348)	(5,625,749)
Payments for supplies and services	(3,503,291)	(2,961,208)
Other receipts and payments	<u>321,851</u>	<u>314,750</u>
Net cash provided (used) by operating activities	<u>(611,505)</u>	<u>305,706</u>
Cash flows from noncapital financing activities		
County tax proceeds	268,901	281,313
Noncapital grants and contributions	<u>31,457</u>	<u>26,287</u>
Net cash provided by noncapital financing activities	<u>300,358</u>	<u>307,600</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(196,695)	(147,453)
Capital grants and contributions		103,058
Proceeds from sale of capital assets	400	850
Long-term obligations incurred	92,202	17,300
Payments on long-term obligations	(166,028)	(159,615)
Interest paid	<u>(32,271)</u>	<u>(38,191)</u>
Net cash used by capital and related financing activities	<u>(302,392)</u>	<u>(224,051)</u>
Cash flows from investing activities		
Change in assets limited as to use	136,841	162,573
Interest received	20,180	22,133
Oil royalties	<u>9,224</u>	<u>8,311</u>
Net cash provided by investing activities	<u>166,245</u>	<u>193,017</u>
Net change in cash and cash equivalents	(447,294)	582,272
Cash and cash equivalents at beginning of year	<u>590,962</u>	<u>8,690</u>
Cash and cash equivalents at end of year	<u>\$ 143,668</u>	<u>\$ 590,962</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (387,591)	\$ (220,010)
Advances to medical students considered operating activity		14,638
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	309,620	345,880
Provision for bad debts	390,048	406,747
Changes in		
Patient accounts receivable	(1,154,654)	(733,788)
Inventories and other current assets	4,902	(43,474)
Accounts payable and accrued expenses	(97,023)	303,163
Estimated third-party payor settlements	<u>323,193</u>	<u>232,550</u>
Net cash provided (used) by operating activities	<u>\$ (611,505)</u>	<u>\$ 305,706</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Logan County Hospital (the Hospital) is a county hospital located in Oakley, Kansas. The Hospital is operated under Kansas statutes as an entity legally separate from Logan County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. The County annually levies a tax for the Hospital. Bond issuances must be approved by the County. The Hospital is a discretely presented component unit of the County for financial statement purposes.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Hospital has implemented all GASB pronouncements and only relevant pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.

4. Cash and cash equivalents

The Hospital considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

5. Allowance for uncollectible accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

6. Supplies

Supplies inventories are stated at cost as determined on the first-in, first-out method.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Assets limited as to use

Assets whose use is limited include tax appropriations received from the County that have been set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

10. Net assets

Net assets of the Hospital are classified in two components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt."

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

13. Charity care

The Hospital provides care to patients who are unable to pay for services. However, the amount of charity care provided is not separately identified from the provision for bad debts.

14. Income taxes

The Hospital is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

15. Subsequent events

The Hospital has evaluated subsequent events through April 9, 2012, which is the date the financial statements were available to be issued.

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare contractor through December 31, 2009.

Medicaid - Hospital services rendered to Medicaid beneficiaries not enrolled in a Medicaid managed care plan are paid under cost reimbursement methodologies. Services rendered to all other Medicaid beneficiaries are paid at prospectively determined rates. Nursing facility services are

LOGAN COUNTY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 December 31, 2011 and 2010

NOTE B - REIMBURSEMENT PROGRAMS - Continued

paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years. The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment, Division of Health Care Finance (DHCF). The Hospital's Medicaid cost reports have been audited or reviewed by DHCF through December 31, 2009.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the Hospital, and other factors. The Hospital qualified for these disproportionate share payments during both 2011 and 2010.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross - Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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 rate.

A summary of gross and net patient service revenue follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 13,571,697	\$ 12,113,011
Contractual adjustments	(3,787,256)	(3,252,762)
Medicaid disproportionate share payments	143,758	215,245
Provision for bad debts	<u>(390,048)</u>	<u>(406,747)</u>
Net patient service revenue	<u>\$ 9,538,151</u>	<u>\$ 8,668,747</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 43 percent and 19 percent, respectively, of the Hospital's net patient service revenue during 2011, and 48 percent and 15 percent, respectively, of the Hospital's net patient service revenue during 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

At December 31, 2011, the carrying amount of the Hospital's bank deposits was \$1,019,248 and the bank balances were \$1,101,767. Of the bank balances, \$476,503 was covered by federal depository insurance, and \$625,264 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 143,568
Assets limited as to use	<u>875,680</u>
Total bank deposits	<u>\$ 1,019,248</u>

NOTE D - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following:

	<u>2011</u>	<u>2010</u>
Patient accounts receivable	\$ 3,000,879	\$ 2,082,956
Less allowance for uncollectible accounts	<u>(503,601)</u>	<u>(350,284)</u>
	<u>\$ 2,497,278</u>	<u>\$ 1,732,672</u>

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 620,349	\$ 762,827
Certificates of deposit	<u>255,331</u>	<u>249,694</u>
	<u>\$ 875,680</u>	<u>\$ 1,012,521</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE F - CAPITAL ASSETS - Continued

The Hospital operates a nursing facility owned by the County under the name of Logan County Manor (the Manor). Certain equipment used to operate the Manor is also owned by the County. The Hospital incurs no rental expense for use of the property and equipment owned by the County. County-owned assets are excluded from the Hospital's financial statements. Historical cost and accumulated depreciation for such assets are summarized as follows:

	<u>2011</u>	<u>2010</u>
Land, building, and fixed equipment	\$ 309,187	\$ 309,187
Major movable equipment	<u>56,754</u>	<u>56,754</u>
	365,941	365,941
Less accumulated depreciation	<u>246,509</u>	<u>226,819</u>
County-owned property and equipment, net	<u>\$ 119,432</u>	<u>\$ 139,122</u>

NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2011</u>	<u>2010</u>
Agreement with Logan County for financing of Manor expansion (leasehold improvements), interest rate of 5.35% with semiannual payments of principal and interest through 2018	\$ 412,204	\$ 461,091
Capital lease obligations, imputed interest rates from 2.43% to 4.85%, collateralized by equipment with an amortized cost of \$216,832	<u>204,706</u>	<u>229,645</u>
	616,910	690,736
Less current maturities	<u>176,452</u>	<u>161,945</u>
Long-term obligations less current maturities	<u>\$ 440,458</u>	<u>\$ 528,791</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE G - LONG-TERM OBLIGATIONS - Continued

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Agreement with Logan County</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2010	\$ 325,586	\$ 507,465	\$ 833,051
Obligations incurred	17,300		17,300
Payments on long-term obligations	<u>(113,241)</u>	<u>(46,374)</u>	<u>(159,615)</u>
Outstanding at December 31, 2010	229,645	461,091	690,736
Obligations incurred	92,202		92,202
Payments on long-term obligations	<u>(117,141)</u>	<u>(48,887)</u>	<u>(166,028)</u>
Outstanding at December 31, 2011	<u>\$ 204,706</u>	<u>\$ 412,204</u>	<u>\$ 616,910</u>

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 124,914	\$ 5,704	\$ 130,618
2013	26,876	2,379	29,255
2014	18,615	1,667	20,282
2015	19,325	956	20,281
2016	<u>14,976</u>	<u>235</u>	<u>15,211</u>
Total minimum lease payments	<u>\$ 204,706</u>	<u>\$ 10,941</u>	215,647
Less amounts representing interest			<u>10,941</u>
Present value of net minimum lease payments			<u>\$ 204,706</u>

Scheduled annual debt service requirements on the agreement with Logan County are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 51,538	\$ 21,375	\$ 72,913
2013	54,332	18,581	72,913
2014	57,278	15,635	72,913
2015	60,383	12,530	72,913
2016	63,657	9,256	72,913
Thereafter	<u>125,016</u>	<u>7,973</u>	<u>132,989</u>
	<u>\$ 412,204</u>	<u>\$ 85,350</u>	<u>\$ 497,554</u>

LOGAN COUNTY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 December 31, 2011 and 2010

NOTE H - DEFINED BENEFIT PENSION PLAN

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS following completion of one year of service. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for employees hired prior to July 1, 2009, and 6 percent of covered salary for employees hired on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation.

KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute for calendar years 2011 and 2010 were 7.49 percent and 6.89 percent, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2011 and 2010, were \$355,974 and \$304,526, respectively, equal to the statutory required contributions for each year.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2011</u>	<u>2010</u>
Medicare	57.6%	37.5%
Medicaid	6.6	8.4
Blue Cross	9.2	9.9
Other insurers	5.8	8.6
Patients	<u>20.8</u>	<u>35.6</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE J - RISK MANAGEMENT

For the years ended December 31, 2011 and 2010, the Hospital was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE J - RISK MANAGEMENT - Continued

the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies are currently in effect through January 1, 2013.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

SUPPLEMENTARY INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTARY INFORMATION

Board of Trustees
Logan County Hospital

We have audited the financial statements of Logan County Hospital as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 21, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented hereinafter is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wendling Noe Nelson & Johnson LLC
Topeka, Kansas
April 9, 2012

LOGAN COUNTY HOSPITAL
 PATIENT SERVICE REVENUE
 Year ended December 31,

	2011			2010		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Acute care	\$ 667,413	\$ -	\$ 667,413	\$ 603,285	\$ -	\$ 603,285
Swing-bed skilled nursing care	703,970		703,970	512,460		512,460
Nursing facility care	2,282,944		2,282,944	2,218,059		2,218,059
Operating room	5,089	449,630	454,719		500,141	500,141
Anesthesiology	22,470	250,059	272,529	12,691	220,932	233,623
Radiology	220,936	1,148,100	1,369,036	209,069	990,248	1,199,317
Laboratory	536,011	1,392,537	1,928,548	435,777	1,357,551	1,793,328
Respiratory therapy	658,044	64,075	722,119	535,494	73,306	608,800
Physical therapy	349,563	815,946	1,165,509	284,123	688,788	972,911
Occupational therapy	93,276	34,493	127,769	74,224	51,569	125,793
Speech therapy	12,423	20,974	33,397	7,029	17,391	24,420
Electrocardiology	61,803	88,389	150,192	98,116	103,064	201,180
Medical and surgical supplies	220,299	218,963	439,262	200,286	268,918	469,204
Pharmacy	825,841	562,058	1,387,899	654,136	549,190	1,203,326
Observation	1,807	70,257	72,064	1,421	73,509	74,930
Emergency room	60,765	737,775	798,540	34,961	671,818	706,779
Physician fees	169	181,061	181,230		154,623	154,623
Cardiac rehabilitation		46,214	46,214		60,062	60,062
Rural health clinic		768,343	768,343		450,770	450,770
Total	<u>\$ 6,722,823</u>	<u>\$ 6,848,874</u>	13,571,697	<u>\$ 5,881,131</u>	<u>\$ 6,231,880</u>	12,113,011
Contractual adjustments			(3,787,256)			(3,252,762)
Medicaid disproportionate share payments			143,758			215,245
Provision for bad debts			<u>(390,048)</u>			<u>(406,747)</u>
Net patient service revenue			<u>\$ 9,538,151</u>			<u>\$ 8,668,747</u>

LOGAN COUNTY HOSPITAL
OTHER REVENUE
Year ended December 31,

	<u>2011</u>	<u>2010</u>
Apartment rental income	\$ 182,151	\$ 191,991
Cafeteria sales	24,300	20,988
Meals on wheels	14,272	18,336
Supply and drug sales to outsiders	18,909	15,948
Chart fees	1,088	1,164
Clinic rental income	123	2,304
Health Fair	23,814	
Other	<u>59,889</u>	<u>48,685</u>
	<u>\$ 324,546</u>	<u>\$ 299,416</u>

LOGAN COUNTY HOSPITAL
EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2011			2010		
	Salaries and wages	Supplies and other expense	Total	Salaries and wages	Supplies and other expense	Total
Nursing services	\$ 801,460	\$ 178,828	\$ 980,288	\$ 809,911	\$ 89,407	\$ 899,318
Nursing administration	143,572		143,572	135,232		135,232
Nursing facility services	1,436,830	550,255	1,987,085	1,338,233	405,457	1,743,690
Operating room	7,558	44,285	51,843	8,310	26,218	34,528
Anesthesiology		131,956	131,956		119,933	119,933
Radiology	139,481	247,345	386,826	136,356	238,316	374,672
Laboratory	191,355	365,596	556,951	187,384	350,893	538,277
Respiratory therapy	49,756	24,049	73,805	59,093	21,740	80,833
Physical therapy	395,915	36,140	432,055	386,083	18,257	404,340
Occupational therapy		66,537	66,537	1,881	45,415	47,296
Speech therapy		32,910	32,910		20,929	20,929
Cardiac rehabilitation	34,856	7,911	42,767	32,219	6,196	38,415
Emergency	154,437	2,316	156,753	149,395	3,378	152,773
Rural health clinic	668,807	367,252	1,036,059	480,980	122,978	603,958
Medical and surgical supplies	79,514	108,658	188,172	86,114	124,177	210,291
Pharmacy	60,160	336,672	396,832	62,777	312,933	375,710
Employee benefits		1,286,847	1,286,847		1,188,800	1,188,800
Administration and general	412,987	717,334	1,130,321	393,874	693,301	1,087,175
Plant operation and maintenance	110,155	153,618	263,773	94,544	144,999	239,543
Laundry		40,741	40,741		34,861	34,861
Housekeeping	76,253	22,716	98,969	61,999	16,239	78,238
Dietary	131,669	98,225	229,894	113,797	87,516	201,313
Medical records	117,983	26,175	144,158	121,383	23,670	145,053
Social services	51,116	364	51,480	56,434	585	57,019
Apartments	24,174	5,900	30,074	24,630	5,466	30,096
Depreciation and amortization		309,620	309,620		345,880	345,880
Total	\$ 5,088,038	\$ 5,162,250	\$ 10,250,288	\$ 4,740,629	\$ 4,447,544	\$ 9,188,173