Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
December 31, 2012 and 2011

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Hospital District No. 6 of Harper County, Kansas
d/b/a Anthony Medical Center
Anthony, Kansas

We have audited the accompanying financial statements of Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) 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 provisions of 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 Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) 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 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 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents is presented for 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.

BKD, LLP

Wichita, Kansas
May 2, 2013

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 448,060	$ 142,823
Restricted cash	36,625	1,414
Patient accounts receivable, net of allowance; 2012 - $304,704, 2011 - $394,253	1,217,928	640,218
Property and sales taxes receivable	863,004	569,134
Estimated amounts due from third-party payers	160,000	321,000
Due from Medicare for electronic health records incentive	-	1,045,000
Supplies	113,566	108,306
Prepaid expenses and other	74,832	71,184
Total current assets	2,914,015	2,899,079
Noncurrent Cash and Investments		
Certificates of deposit	1,059,174	457,906
Capital Assets, Net	3,484,423	4,119,897
Total assets	$ 7,457,612	$ 7,476,882
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 170,949	$ 172,793
Accounts payable	157,180	1,508,841
Accrued expenses	354,241	365,634
Estimated amounts due to Medicare	940,000	-
Deferred property tax revenue	806,504	525,134
Total current liabilities	2,428,874	2,572,402
Long-term Debt	644,904	782,681
Total liabilities	3,073,778	3,355,083
Net Position		
Net investment in capital assets	2,573,405	1,993,052
Unrestricted	1,810,429	2,128,747
Total net position	4,383,834	4,121,799
Total liabilities and net position	$ 7,457,612	$ 7,476,882

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue before provision for bad debts	$ 6,047,408	$ 5,010,160
Provision for bad debts	(274,720)	(187,323)
Net patient service revenue	5,772,688	4,822,837
Electronic health record incentive	-	1,045,000
Gain on disposal of capital assets	-	264,550
Other revenues	339,375	241,765
Total operating revenues	6,112,063	6,374,152
Operating Expenses		
Salaries and wages	3,432,121	3,398,662
Employee benefits	761,989	684,026
Purchased services and professional fees	366,557	291,222
Supplies and other		
Nursing	245,960	191,473
Other professional services	547,220	603,074
General services	238,777	268,627
Administrative services	395,930	433,151
Depreciation and amortization	751,656	557,557
Insurance	37,097	81,818
Total operating expenses	6,777,307	6,509,610
Operating Loss	(665,244)	(135,458)
Nonoperating Revenues (Expenses)		
Interest income	3,008	11,686
Interest expense	(51,119)	(61,717)
Property and sales tax appropriations	823,840	748,863
Total nonoperating revenues	775,729	698,832
Excess of Revenue Over Expenses Before Capital Grants and Gifts	110,485	563,374
Capital Grants and Gifts	151,550	783,415
Increase in Net Position	262,035	1,346,789
Net Position, Beginning of Year	4,121,799	2,775,010
Net Position, End of Year	$ 4,383,834	$ 4,121,799

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 7,340,978	$ 4,701,841
Payments to suppliers and contractors	(2,115,904)	(1,616,018)
Payments to employees	(4,205,503)	(4,066,595)
Other receipts, net	326,875	236,665
Net cash provided by (used in) operating activities	1,346,446	(744,107)
Noncapital Financing Activities		
Property and sales taxes supporting operations	823,840	748,863
Net cash provided by noncapital financing activities	823,840	748,863
Capital and Related Financing Activities		
Principal paid on long-term debt	(324,488)	(481,365)
Capital grants and gifts	151,550	783,415
Insurance proceeds received from involuntary conversion	-	260,000
Proceeds from sale of capital assets	-	4,550
Interest paid on long-term debt	(51,119)	(61,717)
Purchase of capital assets	(1,007,521)	(734,597)
Net cash used in capital and related financing activities	(1,231,578)	(229,714)
Investing Activities		
Purchase of certificates of deposits	(1,059,174)	(686,149)
Proceeds from sales and maturities of investments	457,906	622,289
Interest on investments	3,008	11,686
Net cash used in investing activities	(598,260)	(52,174)
Increase (Decrease) in Cash and Cash Equivalents	340,448	(277,132)
Cash and Cash Equivalents, Beginning of Year	144,237	421,369
Cash and Cash Equivalents, End of Year	$ 484,685	$ 144,237
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 448,060	$ 142,823
Restricted cash	36,625	1,414
	$ 484,685	$ 144,237

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
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	$ (665,244)	$ (135,458)
Depreciation and amortization	751,656	557,557
Gain on disposal of assets	-	(264,550)
Changes in operating assets and liabilities		
Receivables, net	(577,710)	(24,996)
Inventories	(5,260)	22,280
Prepaid expenses and other assets	(3,648)	(24,996)
Accounts payable and accrued liabilities	(299,348)	267,056
Estimated third-party payer settlements	2,146,000	(1,141,000)
Net cash provided by (used in) operating activities	$ 1,346,446	$ (744,107)
Supplemental Cash Flow Information		
Capital lease obligation incurred for property and equipment	$ 184,867	$ 421,550
Capital assets included in accounts payable	$ 95,165	$ 1,171,371

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

Nature of Operations and Reporting Entity

Hospital District No. 6 of Harper County, Kansas, operating as Anthony Medical Center (the Medical Center), was organized for the purpose of providing health care services to patients on an inpatient and outpatient basis in Harper County, Kansas and surrounding area. The Medical Center is governed by a Board of Directors elected by the registered voters of the District.

Basis of Accounting and Presentation

The financial statements of the Medical Center 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 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 Medical Center 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 Medical Center 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 Medical Center 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 of money market accounts.

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

Property and Sales Tax Revenues

The Medical Center operates under Kansas statutes as a hospital district and is entitled to receive a portion of the property taxes levied by the county. These proceeds are not restricted to specific uses by the Medical Center. The county levies property taxes in August of each year for the following budgetary period January 1 through December 31, based on the assessed value of property on the previous January 1. These property tax levies are approved by the state of Kansas in November. Property tax statements are mailed out in November with amounts due in December and May. City sales taxes are collected by Anthony, Kansas and remitted to the Medical Center monthly. The 2012 and 2011 tax revenues are as follows:

	2012	2011
Property	$ 585,477	$ 567,886
Sales	238,363	180,977
	$ 823,840	$ 748,863

Risk Management

The Medical Center 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, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Medical Center bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

All supply inventories are stated at the lower of cost or market using the first-in, first-out method to determine cost.

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 Medical Center:

Land improvements	3 - 20 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

Compensated Absences

Medical Center policies permit most employees to accumulate vacation 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. 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 Medical Center 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 purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

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.

Income Taxes

As a District (a political subdivision of Harper County and the state of Kansas), the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has also obtained 501(c)(3) status with the IRS.

Uncompensated Care

The Medical Center provides care at amounts less than its established rates to patients meeting certain criteria under its uncompensated care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as uncompensated care, these amounts are not reported as net patient service revenue.

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 Medical Center'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 Medical Center recognizes 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.

In 2011, the Medical Center completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of $1,045,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare. The Medical Center is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Medical Center 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 Medical Center and audits thereof by the Medicare Administrative Contractor.

Medicaid. The Medical Center is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. The Medical Center is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Medical Center and reviews thereof by the Kansas Department of Health and Environment.

Approximately 68% and 69% of net patient service revenue is 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 Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center 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 Medical Center 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 Medical Center's net patient service revenue. Additionally, it is possible the Medical Center 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 Medical Center'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 and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2012 and 2011, respectively, $1,091,988 and $36,915 of the Medical Center's bank balances of $1,638,049 and $635,062 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution's agent in other than the Medical Center's name	$ 1,091,988	$ 36,915

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	$ 1,506,934	$ 600,429
Restricted cash deposits	36,625	1,414
Petty cash	300	300
	$ 1,543,859	$ 602,143
Included in the following balance sheet captions		
Cash and cash equivalents	$ 448,060	$ 142,823
Restricted cash deposits	36,625	1,414
Noncurrent cash and investments	1,059,174	457,906
	$ 1,543,859	$ 602,143

Note 4: Patient Accounts Receivable

The Medical Center 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 consisted of:

	2012	2011
Medicare	$ 720,719	$ 267,225
Medicaid	23,245	21,234
Other third-party payers	280,256	214,311
Patients	498,412	531,701
	1,522,632	1,034,471
Less allowance for uncollectible accounts	304,704	394,253
	$ 1,217,928	$ 640,218

Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,104	$ -	$ -	$ -	$ 5,104
Land improvements	412,431	-	-	-	412,431
Buildings	3,656,708	17,335	-	26,841	3,700,884
Construction in process	-	26,841	-	(26,841)	-
Equipment – major and minor	4,679,249	72,006	-	-	4,751,255
Leasehold improvements	6,228	-	-	-	6,228
	8,759,720	116,182	-	-	8,875,902
Less accumulated depreciation					
Land improvements	(144,902)	(30,498)	-	-	(175,400)
Buildings	(1,857,260)	(132,396)	-	-	(1,989,656)
Equipment – major and minor	(2,631,486)	(588,737)	-	-	(3,220,223)
Leasehold improvements	(6,175)	(25)	-	-	(6,200)
	(4,639,823)	(751,656)	-	-	(5,391,479)
Capital Assets, Net	$ 4,119,897	$ (635,474)	$ -	$ -	$ 3,484,423

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 5,104	$ -	$ -	$ -	$ 5,104
Land improvements	216,851	8,214	-	187,366	412,431
Buildings	2,713,059	100,537	-	843,112	3,656,708
Construction in process	451,927	620,330	-	(1,072,257)	-
Equipment – major and minor	3,512,727	1,471,717	(346,974)	41,779	4,679,249
Leasehold improvements	6,228	-	-	-	6,228
	6,905,896	2,200,798	(346,974)	-	8,759,720
Less accumulated depreciation					
Land improvements	(118,198)	(26,704)	-	-	(144,902)
Buildings	(1,726,590)	(130,670)	-	-	(1,857,260)
Equipment – major and minor	(2,578,303)	(400,157)	346,974	-	(2,631,486)
Leasehold improvements	(6,149)	(26)	-	-	(6,175)
	(4,429,240)	(557,557)	346,974	-	(4,639,823)
Capital Assets, Net	$ 2,476,656	$ 1,643,241	$ -	$ -	$ 4,119,897

Note 6: Medical Malpractice Coverage and Claims

The Medical Center 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 $300,000 of coverage for each medical incident and $900,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center'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 Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31:

	2012				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	$ 955,474	$ 184,867	$ 324,488	$ 815,853	$ 170,949

	2011				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	$ 1,015,289	$ 421,550	$ 481,365	$ 955,474	$ 172,793

Capital Lease Obligations

The Medical Center is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and 2011, totaled $1,019,500 and $1,951,279, net of accumulated depreciation of $401,300 and $863,666, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.22% to 7.99%, together with the present value of the future minimum lease payments as of December 31, 2012:

2013	$ 174,674
2014	89,178
2015	88,556
2016	88,556
2017	88,556
2018-2022	378,290
2023-2024	51,584
Total minimum lease payments	959,394
Less amount representing interest	238,706
Present value of future minimum lease payments	$ 720,688

Note 8: Cost-sharing Multiple-employer Defined Benefit Plan

Plan Description

The Medical Center contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Medical Center 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 Avenue, Suite 100, Topeka, Kansas 66603-3869, or by calling 1.888.275.5737.

Funding Policy

The authority to establish and amend requirements of plan members and the Medical Center 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 Medical Center is required to contribute at an actuarially determined rate; the rate was 7.34%, 6.74% and 6.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Medical Center’s contributions to the plan for 2012, 2011 and 2010 were $245,939, $221,624 and $206,122, respectively, which equaled the required contribution for the year. State law limits the Medical Center’s future contribution rate increases to a maximum of 0.6% plus the cost of any benefit enhancements.

Note 9: Hospital Foundation

Anthony Medical Center and Clinic Association Foundation (Foundation) is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting the Medical Center and assisting community activities relating to providing health care services. The unaudited financial position and results of operations of the Foundation as of and for the years ended December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Investments	$ 251,682	$ 80,612
Net position	$ 251,682	$ 80,612
Revenue	$ 273,132	$ 99,322
Expenses	126,278	223,900
Revenue over (under) expenses	$ 146,854	$ (124,578)

The Foundation provided $69,571 and $216,286 of support to the Medical Center during the years ended December 31, 2012 and 2011, respectively.

Note 10: Risks and Uncertainties

Litigation

In the normal course of business, the Medical Center 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 Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center 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.

Supplementary Information

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2012

	Actual	Budget	Over (Under)
Net Patient Service Revenue	$ 7,340,978	$ 5,209,500	$ 2,131,478
Other	623,753	285,500	338,253
Total Revenue	7,964,731	5,495,000	2,469,731
Operating Expenses, Less Depreciation and Amortization Including Interest Expense	6,372,526	6,325,765	46,761
Operating Loss Before Tax Support	$ 1,592,205	$ (830,765)	$ 2,422,970