Comanche County Hospital
A Component Unit of Comanche County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

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

Contents

BKD LLP
CPAs & Advisors

1551 N. Waterfront Parkway, Suite 300
Wichita, KS 67206-6601
316.265.2811 Fax 316.265.9405 www.bkd.com

Independent Auditor's Report

Board of Trustees
Comanche County Hospital
Coldwater, Kansas

We have audited the accompanying financial statements of Comanche County Hospital (Hospital), a component unit of Comanche 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 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 Comanche 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 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.

BKD, LLP

Wichita, Kansas
May 7, 2013

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

	2012	2011
Assets		
Current Assets		
Cash	$ 866,848	$ 221,314
Short-term investments	300,000	300,000
Patient accounts receivable, net	284,671	480,046
Estimated amounts due from third-party payers	577,000	1,010,000
Supplies	70,549	60,656
Prepaid expenses and other	70,901	66,163
Total current assets	2,169,969	2,138,179
Noncurrent Cash and Investments		
Restricted by donors for capital acquisitions	1,887	8,432
Capital Assets, Net	3,174,906	3,763,666
Total assets	$ 5,346,762	$ 5,910,277

	2012	2011
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 89,839	$ 86,708
Accounts payable	23,406	27,420
Accrued salaries and payroll taxes	101,209	92,060
Accrued vacation benefits	87,396	80,308
Deferred revenue	-	639,438
Total current liabilities	301,850	925,934
Long-term Debt	313,957	403,797
Total liabilities	615,807	1,329,731
Net Position		
Net investment in capital assets	2,771,110	3,273,161
Restricted - expendable for capital acquisitions	1,887	8,432
Unrestricted	1,957,958	1,298,953
Total net position	4,730,955	4,580,546
Total liabilities and net position	$ 5,346,762	$ 5,910,277

Comanche County Hospital
A Component Unit of Comanche 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	$ 3,358,920	$ 3,110,742
Electronic health records incentive revenue	639,438	-
Other	24,667	23,885
Total operating revenues	4,023,025	3,134,627
Operating Expenses		
Salaries and wages	1,920,886	2,082,159
Supplies and other	1,819,578	1,611,787
Depreciation	588,760	560,294
Total operating expenses	4,329,224	4,254,240
Operating Loss	(306,199)	(1,119,613)
Nonoperating Revenues (Expenses)		
Property taxes	449,523	446,292
Investment income	6,046	8,531
Interest expense	(15,830)	(12,634)
Noncapital grants and gifts	15,045	13,615
Other	1,824	4,554
Total nonoperating revenues, net	456,608	460,358
Increase (Decrease) in Net Position	150,409	(659,255)
Net Position, Beginning of Year	4,580,546	5,239,801
Net Position, End of Year	$ 4,730,955	$ 4,580,546

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

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 3,347,857	$ 2,817,888
Payments to suppliers and contractors	(1,838,223)	(1,540,225)
Payments to employees	(1,904,649)	(2,078,663)
Other receipts, net	664,105	23,885
Net cash provided by (used in) operating activities	269,090	(777,115)
Noncapital Financing Activities		
Property taxes supporting operations	449,523	446,292
Noncapital grants and gifts	15,045	13,615
Other	1,824	4,554
Net cash provided by noncapital financing activities	466,392	464,461
Capital and Related Financing Activities		
Principal paid on long-term debt	(86,709)	(64,867)
Interest paid on long-term debt	(15,830)	(12,634)
Purchases of capital assets	-	(108,869)
Net cash used in capital and related financing activities	(102,539)	(186,370)
Investing Activities		
Interest on investments	6,046	8,531
Proceeds from disposition investments	-	300,000
Net cash provided by investing activities	6,046	308,531
Increase (Decrease) in Cash	638,989	(190,493)
Cash, Beginning of Year	229,746	420,239
Cash, End of Year	$ 868,735	$ 229,746
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 866,848	$ 221,314
Cash in noncurrent cash and investments	1,887	8,432
	$ 868,735	$ 229,746

Comanche County Hospital
A Component Unit of Comanche 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 Provided by (Used in) Operating Activities		
Operating loss	$ (306,199)	$ (1,119,613)
Depreciation	588,760	560,294
Provision for uncollectible accounts	109,343	1,840
Changes in operating assets and liabilities		
Patient accounts receivable	86,032	200,868
Estimated amounts due from and to third-party payers	(206,438)	(495,562)
Supplies	(9,893)	48,566
Prepaid expenses and other	(4,738)	15,616
Accounts payable and accrued expenses	12,223	10,876
Net cash provided by (used in) operating activities	$ 269,090	$ (777,115)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ -	$ 325,674

Comanche County Hospital
A Component Unit of Comanche 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

Comanche County Hospital (Hospital) is a rural acute care hospital located in Coldwater, Kansas. The Hospital is a component unit of Comanche County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Comanche county 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 (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 Hospital first applies restricted assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted assets are available.

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

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 or that have not been designated by the donors for capital acquisitions to be cash equivalents. There were no cash equivalents at December 31, 2012 and 2011.

Property Taxes

The Hospital received approximately 10% and 12% in 2012 and 2011, respectively, of its financial support from property taxes. Revenue from property taxes is recognized in the year for which the taxes are levied.

Risk Management

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

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Noncurrent cash and investments include assets restricted by donors for capital acquisitions.

Investment income includes interest income earned on bank deposits and certificates of deposit.

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 the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

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

Land improvements	20 years
Building	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 30 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 three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

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 (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. 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 $639,438, which is included in the statement of revenues, expenses and changes in net position 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 licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

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. The Hospital is reimbursed at tentative rates with final settlements determined after submission of an annual cost report 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.

Approximately 81% and 83% of net patient service revenue 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, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue consists of the following for the years ended December 31:

	2012	2011
Gross patient service revenue	$ 2,397,189	$ 2,098,152
Plus (less) contractual adjustments:		
Medicare	1,198,145	1,195,370
Medicaid	11,315	11,392
Other adjustments	(129,909)	(177,376)
Charity care	(8,477)	(14,956)
Provision for uncollectible accounts	(109,343)	(1,840)
	$ 3,358,920	$ 3,110,742

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, $0 and $104,306 of the Hospital's bank balances of $1,231,255 and $604,306 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution	$ -	$ 104,306

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	$ 1,168,735	$ 529,746
Included in the following balance sheet captions		
Cash	$ 866,848	$ 221,314
Short-term investments	300,000	300,000
Noncurrent cash and investments	1,887	8,432
	$ 1,168,735	$ 529,746

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 consisted of:

	2012	2011
Medicare	$ 123,356	$ 173,648
Medicaid	3,358	4,192
Blue Cross	59,426	53,625
Other third-party payers	16,953	33,669
Patients	128,976	159,177
	332,069	424,311
Allowance for contractual adjustments	18,994	118,347
Allowance for uncollectible accounts	(66,392)	(62,612)
	$ 284,671	$ 480,046

The mix of accounts receivables from patients and third-party payers at December 31 are as follows:

	2012	2011
Medicare	57%	67%
Medicaid	0%	1%
Blue Cross	15%	7%
Other third-party payers	5%	5%
Patients	23%	20%
	100%	100%

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 44,430	$ -	$ -	$ -	$ 44,430
Land improvements	109,157	-	-	-	109,157
Building	3,910,058	-	-	-	3,910,058
Fixed equipment	446,623	-	-	-	446,623
Major moveable equipment	1,683,672	-	-	-	1,683,672
	6,193,940	-	-	-	6,193,940
Less accumulated depreciation					
Land improvements	34,788	9,893	-	-	44,681
Building	1,277,155	218,016	-	-	1,495,171
Fixed equipment	146,879	34,478	-	-	181,357
Major moveable equipment	971,452	326,373	-	-	1,297,825
	2,430,274	588,760	-	-	3,019,034
Capital Assets, Net	$ 3,763,666	$ (588,760)	$ -	$ -	$3,174,906

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 44,430	$ -	$ -	$ -	$ 44,430
Land improvements	109,157	-	-	-	109,157
Building	3,903,308	6,750	-	-	3,910,058
Fixed equipment	446,623	-	-	-	446,623
Major moveable equipment	1,272,212	411,460	-	-	1,683,672
	5,775,730	418,210	-	-	6,193,940
Less accumulated depreciation					
Land improvements	24,895	9,893	-	-	34,788
Building	1,059,533	217,622	-	-	1,277,155
Fixed equipment	112,402	34,477	-	-	146,879
Major moveable equipment	673,150	298,302	-	-	971,452
	1,869,980	560,294	-	-	2,430,274
Capital Assets, Net	$ 3,905,750	$ (142,084)	$ -	$ -	$3,763,666

Note 6: Medical Malpractice Claims

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

Note 7: Long-term Obligations

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

	2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 490,505	$ -	$ (86,709)	$ 403,796	$ 89,839	$ 313,957

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 229,698	$ 325,674	$ (64,867)	$ 490,505	$ 86,708	$ 403,797

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and 2011, totaled $258,274 and $485,243, respectively, net of accumulated depreciation of $427,352 and $200,383, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 3.46% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	$ 102,538
2014	102,538
2015	102,538
2016	102,538
2017	25,037
Total minimum lease payments	435,189
Less amount representing interest	31,393
Present value of future minimum lease payments	$ 403,796

Note 8: Employee Benefit Plans

Defined Benefit Pension Plan

Plan Description

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. 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 the plan at KPERS, 611 South Kansas, Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. 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 rate established by statute for calendar years 2012, 2011 and 2010 was 7.34%, 6.74% and 6.14%, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2012, 2011 and 2010 were $145,792, $145,260 and $134,202, respectively, equal to the statutory required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%

Deferred Compensation Plan

In 2005, the Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were $15,795 and $11,550 for the years ended December 31, 2012 and 2011, respectively. The Hospital does not contribute to the 457(b) plan.

Note 9: Management Agreement

The Board of Trustees has entered into a management agreement with Great Plains Health Alliance, Inc. The agreement can be canceled with 60 days' notice. Fees incurred under this agreement were $71,028 and $68,988 in 2012 and 2011, respectively. Amounts included in accounts payable related to these services totaled $0 and $6,382 at December 31, 2012 and 2011, respectively.

Note 10: General Obligation Bonds

In November 2006, the voters of Comanche county approved the issuance of $4.5 million of general obligation bonds to be used to renovate the Hospital. Upon completion of the project, $3,861,631 of expenditures paid by the County with bond funds was transferred to the Hospital. The bonds are a liability of the County and are not reflected on the Hospital's books, as the Hospital has no responsibility for debt service. The Hospital did not transfer any such funds to the County during 2012 or 2011.

Note 11: 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 to 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 PPACA's implementation.

Note 12: Current Economic Conditions

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

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

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