

Edwards County Hospital
A Component Unit of Edwards County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2012 and November 30, 2011



Edwards County Hospital
A Component Unit of Edwards County, Kansas
December 31, 2012 and November 30, 2011

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Independent Auditor's Report

Board of Trustees
Edwards County Hospital
Kinsley, Kansas

We have audited the accompanying financial statements of Edwards County Hospital, a component unit of Edwards County, Kansas, which comprise the balance sheets as of December 31, 2012 and November 30, 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the thirteen months ended December 31, 2012 and the year ended November 30, 2011, 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 Edwards County Hospital as of December 31, 2012 and November 30, 2011, and the changes in its financial position and its cash flows for the thirteen months ended December 31, 2012 and the year ended November 30, 2011, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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 missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
April 19, 2013

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Balance Sheets
December 31, 2012 and November 30, 2011

	2012	Restated 2011
Assets		
Current Assets		
Cash	\$ 310,149	\$ 104,563
Patient accounts receivable, net of allowance; 2012 - \$263,000, 2011 - \$322,000	1,120,415	1,291,917
Estimated amounts due from third-party payers	335,000	195,000
Supplies	177,865	223,872
Prepaid expenses and other	171,101	211,528
Total current assets	2,114,530	2,026,880
Assets Limited As To Use		
Internally designated	936,533	934,810
Capital Assets, Net	1,937,403	1,940,205
Total assets	<u>\$ 4,988,466</u>	<u>\$ 4,901,895</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 47,769	\$ 50,591
Accounts payable	392,234	455,508
Accrued expenses	404,454	224,618
Deferred grant revenue	12,262	2,500
Total current liabilities	856,719	733,217
Long-term Debt	323,296	277,119
Total liabilities	<u>1,180,015</u>	<u>1,010,336</u>
Net Position		
Net investment in capital assets	1,566,338	1,612,495
Unrestricted	2,242,113	2,279,064
Total net position	<u>3,808,451</u>	<u>3,891,559</u>
Total liabilities and net position	<u>\$ 4,988,466</u>	<u>\$ 4,901,895</u>

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Thirteen Months Ended December 31, 2012 and Year Ended November 30, 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$267,000, 2011 - \$227,000	\$ 8,171,304	\$ 7,606,896
Other	<u>123,825</u>	<u>83,582</u>
Total operating revenues	<u>8,295,129</u>	<u>7,690,478</u>
Operating Expenses		
Salaries and wages	3,552,352	2,954,182
Employee benefits	1,007,075	774,196
Purchased services and professional fees	2,248,518	2,321,326
Supplies and other	1,602,195	1,458,363
Depreciation	<u>294,837</u>	<u>230,814</u>
Total operating expenses	<u>8,704,977</u>	<u>7,738,881</u>
Operating Loss	<u>(409,848)</u>	<u>(48,403)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	305,594	265,315
Interest income	1,410	4,173
Interest expense	(20,016)	(4,904)
Noncapital grants and gifts	<u>39,752</u>	<u>26,945</u>
Total nonoperating revenues	<u>326,740</u>	<u>291,529</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts and Transfers	(83,108)	243,126
Capital Grants and Gifts	<u>-</u>	<u>150,000</u>
Increase (Decrease) in Net Position	(83,108)	393,126
Net Position, Beginning of Year	<u>3,891,559</u>	<u>3,498,433</u>
Net Position, End of Year	<u><u>\$ 3,808,451</u></u>	<u><u>\$ 3,891,559</u></u>

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Statements of Cash Flows

Thirteen Months Ended December 31, 2012 and Year Ended November 30, 2011

	2012	Restated 2011
Operating Activities		
Receipts from and on behalf of patients	\$ 8,202,806	\$ 7,126,472
Payments to suppliers and contractors	(3,827,553)	(3,812,781)
Payments to and on behalf of employees	(4,379,591)	(3,831,878)
Other receipts, net	123,825	83,582
	<u>119,487</u>	<u>(434,605)</u>
Net cash provided by (used in) operating activities		
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	305,594	265,315
Noncapital grants and gifts	49,514	29,445
	<u>355,108</u>	<u>294,760</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Capital grants and gifts received	-	150,000
Proceeds from issuance of long-term debt	354,320	-
Principal payments on long-term debt	(57,919)	(29,432)
Interest payments on long-term debt	(20,016)	(4,904)
Purchase of capital assets	(545,081)	(79,817)
	<u>(268,696)</u>	<u>35,847</u>
Net cash provided by (used in) capital and related financing activities		
Investing Activities		
Interest income received	1,410	4,173
	<u>1,410</u>	<u>4,173</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash	207,309	(99,825)
Cash, Beginning of Year	<u>1,039,373</u>	<u>1,139,198</u>
Cash, End of Year	<u><u>\$ 1,246,682</u></u>	<u><u>\$ 1,039,373</u></u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 310,149	\$ 104,563
Cash in assets limited as to use - internally designated	<u>936,533</u>	<u>934,810</u>
Total cash	<u><u>\$ 1,246,682</u></u>	<u><u>\$ 1,039,373</u></u>

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Statements of Cash Flows (Continued)

Thirteen Months Ended December 31, 2012 and Year Ended November 30, 2011

	<u>2012</u>	<u>Restated 2011</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided By (Used in) Operating Activities		
Operating loss	\$ (409,848)	\$ (48,403)
Depreciation	294,837	230,814
Changes in operating assets and liabilities		
Patient accounts receivable, net	171,502	(520,424)
Estimated amounts due from and to Medicare	(140,000)	40,000
Accounts payable and accrued expenses	116,562	25,281
Other assets and liabilities	<u>86,434</u>	<u>(161,873)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 119,487</u></u>	<u><u>\$ (434,605)</u></u>
 Supplemental Cash Flows Information		
Payable incurred for property and equipment	\$ -	\$ 253,046

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Notes to Financial Statements
December 31, 2012 and November 30, 2011

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

Nature of Operations and Reporting Entity

Edwards County Hospital (Hospital) is an acute care hospital located in Kinsley, Kansas. The Hospital is a component unit of Edwards County, Kansas 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, emergency care and geriatric psychiatric services to patients in the Edwards County, Kansas area.

Basis of Accounting and Presentation

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

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

During 2012, management made an administrative decision to change the fiscal year end to December 31, creating a thirteen-month fiscal year.

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.

Intergovernmental Revenue

The Hospital received approximately 3% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2012 and 2011. One hundred percent of these funds were used to support operations in both years.

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

Edwards County Hospital
A Component Unit of Edwards County, Kansas
Notes to Financial Statements
December 31, 2012 and November 30, 2011

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents at December 31, 2012 and November 30, 2011.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Trustees for the purchase of capital assets over which the Board retains control and may at its discretion subsequently use for other purposes.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and employee health. 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 to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Effective January 1, 2012, the Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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.

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Notes to Financial Statements
December 31, 2012 and November 30, 2011

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. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings	15 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

Compensated Absences

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

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the above conditions.

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, includes estimated retroactive revenue adjustments and is reduced by 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.

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Notes to Financial Statements
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Charity Care

The Hospital provides care 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. The Hospital has also obtained 501(c)(3) status with the IRS.

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. Inpatient geriatric psychiatry services are paid at prospectively determined per diem rates. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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

Edwards County Hospital
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Notes to Financial Statements
December 31, 2012 and November 30, 2011

Approximately 81% and 83% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the thirteen months ended December 31, 2012 and year ended November 30, 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.

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 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.

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Notes to Financial Statements
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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 November 30, 2011, respectively, \$943,658 and \$822,766 of the Hospital's bank balances of \$1,328,338 and \$1,094,018 were exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 943,658</u>	<u>\$ 822,766</u>

Summary of Carrying Values

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

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	\$ 1,246,182	\$ 1,039,153
Petty cash	<u>500</u>	<u>220</u>
	<u><u>\$ 1,246,682</u></u>	<u><u>\$ 1,039,373</u></u>
Included in the following balance sheet captions		
Cash	\$ 310,149	\$ 104,563
Assets whose use is limited	<u>936,533</u>	<u>934,810</u>
	<u><u>\$ 1,246,682</u></u>	<u><u>\$ 1,039,373</u></u>

Assets Limited As To Use

Assets limited as to use include:

	<u>2012</u>	<u>2011</u>
Internally designated for capital expenditures		
Cash and cash equivalents	<u>\$ 936,533</u>	<u>\$ 934,810</u>

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Notes to Financial Statements
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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and November 30, 2011, consisted of:

	2012	2011
Medicare	\$ 523,393	\$ 933,674
Medicaid	19,638	10,498
Blue Cross	107,956	73,797
Other third-party payers	193,861	194,890
Patients	538,567	401,058
	<u>1,383,415</u>	<u>1,613,917</u>
Less allowance for uncollectible accounts	<u>263,000</u>	<u>322,000</u>
	<u><u>\$ 1,120,415</u></u>	<u><u>\$ 1,291,917</u></u>

Note 5: Capital Assets

Capital assets activity for the thirteen months ended December 31, 2012 and year ended November 30, 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 44,231	\$ -	\$ -	\$ -	\$ 44,231
Land improvements	123,239	-	(1,073)	-	122,166
Buildings	3,967,138	-	-	-	3,967,138
Fixed equipment	1,817,539	269,494	(36,661)	3,256	2,053,628
Major moveable equipment	1,314,707	22,541	(234,096)	-	1,103,152
Construction in progress	3,256	-	-	(3,256)	-
	<u>7,270,110</u>	<u>292,035</u>	<u>(271,830)</u>	<u>-</u>	<u>7,290,315</u>
Less accumulated depreciation					
Land improvements	113,773	6,928	(1,073)	-	119,628
Buildings	2,716,033	122,859	-	-	2,838,892
Fixed equipment	1,439,814	62,238	(36,617)	-	1,465,435
Major moveable equipment	1,060,285	102,812	(234,140)	-	928,957
	<u>5,329,905</u>	<u>294,837</u>	<u>(271,830)</u>	<u>-</u>	<u>5,352,912</u>
Capital Assets, Net	<u>\$1,940,205</u>	<u>\$ (2,802)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,937,403</u>

Edwards County Hospital
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Notes to Financial Statements
December 31, 2012 and November 30, 2011

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 44,231	\$ -	\$ -	\$ -	\$ 44,231
Land improvements	123,239	-	-	-	123,239
Buildings	3,967,138	-	-	-	3,967,138
Fixed equipment	1,537,208	280,331	-	-	1,817,539
Major moveable equipment	1,265,431	49,276	-	-	1,314,707
Construction in progress	-	3,256	-	-	3,256
	<u>6,937,247</u>	<u>332,863</u>	<u>-</u>	<u>-</u>	<u>7,270,110</u>
Less accumulated depreciation					
Land improvements	107,510	6,263	-	-	113,773
Buildings	2,595,257	120,776	-	-	2,716,033
Fixed equipment	1,424,703	15,111	-	-	1,439,814
Major moveable equipment	971,621	88,664	-	-	1,060,285
	<u>5,099,091</u>	<u>230,814</u>	<u>-</u>	<u>-</u>	<u>5,329,905</u>
Capital Assets, Net	<u>\$1,838,156</u>	<u>\$ 102,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,940,205</u>

Note 6: Medical Malpractice Coverage and Claims

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

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

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Notes to Financial Statements
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Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. Effective January 1, 2012, the Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$25,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2012 is summarized as follows:

Balance, beginning of year	\$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	344,177
Claims and expenses paid	<u>(273,570)</u>
Balance, end of year	<u><u>\$ 70,607</u></u>

Note 8: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the thirteen months ended December 31, 2012 and year ended November 30, 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 74,664	\$ -	\$ 36,246	\$ 38,418	\$ 29,997
Note payable to bank	<u>253,046</u>	<u>101,274</u>	<u>21,673</u>	<u>332,647</u>	<u>17,772</u>
Total long-term debt	<u><u>\$ 327,710</u></u>	<u><u>\$ 101,274</u></u>	<u><u>\$ 57,919</u></u>	<u><u>\$ 371,065</u></u>	<u><u>\$ 47,769</u></u>

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 104,096	\$ -	\$ 29,432	\$ 74,664	\$ 30,938
Note payable to bank	<u>-</u>	<u>253,046</u>	<u>-</u>	<u>253,046</u>	<u>19,653</u>
Total long-term debt	<u><u>\$ 104,096</u></u>	<u><u>\$ 253,046</u></u>	<u><u>\$ 29,432</u></u>	<u><u>\$ 327,710</u></u>	<u><u>\$ 50,591</u></u>

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December 31, 2012 and November 30, 2011

Capital Lease Obligations

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and November 30, 2011, totaled \$62,500 and \$116,667, respectively, net of accumulated depreciation of \$187,500 and \$133,333, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,		
2013	\$	31,138
2014		8,492
Total minimum lease payments		39,630
Less amount representing interest		1,212
		<u>38,418</u>
Present value of future minimum lease payments	\$	<u>38,418</u>

Note Payable to Bank

The note payable to bank is due October 11, 2026, with principal payable monthly and interest at 4.50% payable monthly. The note is secured by certain capital assets. The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 32,671	\$ 17,772	\$ 14,899
2014	32,671	18,600	14,071
2015	32,671	19,467	13,204
2016	32,671	20,338	12,333
2017	32,671	21,322	11,349
2018 - 2022	163,353	122,442	40,911
2023 - 2026	<u>119,011</u>	<u>112,706</u>	<u>6,305</u>
	<u>\$ 445,719</u>	<u>\$ 332,647</u>	<u>\$ 113,072</u>

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Note 9: Designated Net Position

At December 31, 2012 and November 30, 2011, \$936,533 and \$934,810, respectively, of unrestricted net position has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes. Designated net position is reported as assets limited as to use.

Note 10: Pension Plan

Plan Description

The Hospital 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 Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas, 66603-3803, or by calling 1.888.275.5737.

Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 8.34%, 7.74% and 7.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$257,700, \$203,476 and \$180,357, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 11: Commitment

The Hospital has entered into an agreement to purchase new accounting and electronic health records software. The software is anticipated to be installed during 2013 at a cost of approximately \$909,000. A note payable with a bank has been secured to fund the purchase.

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Note 12: Restatement of Prior Year Financial Statements

In 2011, the Hospital recorded a note payable to bank incurred for capital assets as an operating activity. Under Generally Accepted Accounting Principles (GAAP), the note payable should have been recorded as capital and related financing activities. The Hospital has retroactively restated prior year financial statements to properly reflect this transaction. The change had no effect on prior change in net position.

The Hospital previously did not report internally designated cash in the statement of cash flows as required by GAAP. The Hospital has retroactively restated prior year financial statements to include all cash in the statement of cash flows.

The following financial statement line items were affected by the correction:

Balance Sheet			
	As Previously Reported	As Restated	Effect of Change
Current Liabilities			
Current maturities of long-term debt	\$ 30,938	\$ 50,591	\$ 19,653
Total current liabilities	713,564	733,217	19,653
Long-term Debt	43,726	277,119	233,393
Other Long-term Liabilities	253,046	-	(253,046)
Net Position			
Net investment in capital assets	1,865,541	1,612,495	(253,046)
Unrestricted	2,026,018	2,279,064	253,046
Statement of Cash Flows			
	As Previously Reported	As Restated	Effect of Change
Operating Activities			
Payments to suppliers and contractors	\$ (3,559,735)	\$ (3,812,781)	\$ (253,046)
Net cash used in operating activities	(181,559)	(434,605)	(253,046)
Capital and Related Financing Activities			
Purchase of capital assets	(332,863)	(79,817)	253,046
Net cash provided by (used in) capital and related financing activities	(217,199)	35,847	253,046
Investing Activities			
Net change in assets limited as to use	21,403	-	(21,403)
Decrease in Cash	(78,422)	(99,825)	(21,403)
Cash, Beginning of Year	182,985	1,139,198	956,213
Cash, End of Year	104,563	1,039,373	934,810
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided By (Used in) Operating Activities			
Changes in operating assets and liabilities			
Accounts payable and accrued expenses	278,327	25,281	(253,046)
Net cash used in operating activities	(181,559)	(434,605)	(253,046)