

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Independent Accountants' Report and Financial Statements
June 30, 2012 and 2011



Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
June 30, 2012 and 2011

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
--	----------

Financial Statements

Balance Sheets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	7

Supplementary Information

Patient Service Revenue	18
Operating Expenses by Functional Division	19

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Ellsworth County Medical Center
Ellsworth, Kansas

We have audited the accompanying balance sheets of Ellsworth County Medical Center (Medical Center), a component unit of Ellsworth County, Kansas, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth County Medical Center as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The patient service revenue and operating expenses by functional division schedules 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 audits 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

November 27, 2012

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Balance Sheets
June 30, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 1,005,005	\$ 1,161,722
Patient accounts receivable, net	1,698,493	1,798,440
Property taxes receivable	20,260	61,577
Estimated amounts due from third-party payers	380,000	86,402
Supplies	185,761	199,951
Prepaid expenses and other	114,408	68,122
Pledges receivable	350,000	10,279
	<hr/>	<hr/>
Total current assets	3,753,927	3,386,493
	<hr/>	<hr/>
Noncurrent Cash and Investments		
Designated by Board of Trustees	1,571,026	1,951,678
Restricted for debt service	-	85,000
Restricted by donors	139,029	75,992
	<hr/>	<hr/>
	1,710,055	2,112,670
	<hr/>	<hr/>
Capital Assets, Net	2,447,732	3,045,718
	<hr/>	<hr/>
Other Assets		
Advances to medical students	204,896	200,642
Deferred financing costs	-	11,224
	<hr/>	<hr/>
	204,896	211,866
	<hr/>	<hr/>
Total assets	\$ 8,116,610	\$ 8,756,747
	<hr/>	<hr/>

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Current maturities of long-term debt	\$ 139,919	\$ 279,654
Accounts payable	335,623	271,552
Accrued salaries payable	94,747	231,620
Accrued benefits payable	293,859	281,620
Deferred property taxes	80,260	68,899
Other accrued liabilities	191,225	151,804
	<hr/>	<hr/>
Total current liabilities	1,135,633	1,285,149
Long-term Debt	37,350	720,578
	<hr/>	<hr/>
Total liabilities	1,172,983	2,005,727
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	2,270,463	2,056,710
Restricted - expendable for		
Debt service	-	85,000
Specific operating activities	139,029	75,992
Unrestricted	4,534,135	4,533,318
	<hr/>	<hr/>
Total net assets	6,943,627	6,751,020
	<hr/>	<hr/>
Total liabilities and net assets	\$ 8,116,610	\$ 8,756,747
	<hr/>	<hr/>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue	\$ 12,817,120	\$ 12,981,440
Other	<u>156,457</u>	<u>144,130</u>
Total operating revenues	<u>12,973,577</u>	<u>13,125,570</u>
Operating Expenses		
Salaries and wages	6,904,295	6,629,204
Employee benefits	1,190,254	1,497,999
Supplies and other	4,381,024	4,385,582
Depreciation	<u>625,704</u>	<u>696,608</u>
Total operating expenses	<u>13,101,277</u>	<u>13,209,393</u>
Operating Loss	<u>(127,700)</u>	<u>(83,823)</u>
Nonoperating Revenues (Expenses)		
Property taxes	163,806	142,489
Investment income	22,394	26,153
Interest expense	(57,949)	(60,308)
Loss on sale of capital assets	(23,475)	-
Noncapital contributions	<u>215,531</u>	<u>110,075</u>
Total nonoperating revenues	<u>320,307</u>	<u>218,409</u>
Change in Net Assets	192,607	134,586
Net Assets, Beginning of Year	<u>6,751,020</u>	<u>6,616,434</u>
Net Assets, End of Year	<u><u>\$ 6,943,627</u></u>	<u><u>\$ 6,751,020</u></u>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 12,623,469	\$ 13,256,100
Payments to suppliers	(4,256,974)	(4,139,245)
Payments to employees	(8,179,762)	(8,197,518)
Receipts from others	<u>215,160</u>	<u>140,869</u>
Net cash provided by operating activities	<u>401,893</u>	<u>1,060,206</u>
Noncapital Financing Activities		
Property taxes	163,806	142,489
Noncapital contributions	<u>215,531</u>	<u>110,075</u>
Net cash provided by noncapital financing activities	<u>379,337</u>	<u>252,564</u>
Capital and Related Financing Activities		
Purchases of capital assets	(349,768)	(117,840)
Proceeds from sale of capital assets	1,500	-
Principal paid on long-term debt	(967,963)	(384,789)
Interest paid on long-term debt	<u>(46,725)</u>	<u>(58,133)</u>
Net cash used in capital and related financing activities	<u>(1,362,956)</u>	<u>(560,762)</u>
Investing Activities		
Investment income	22,394	26,153
Change in assets limited as to use	<u>508,386</u>	<u>(213,153)</u>
Net cash provided by (used in) investing activities	<u>530,780</u>	<u>(187,000)</u>
Increase (Decrease) in Cash	(50,946)	565,008
Cash, Beginning of Year	<u>1,259,759</u>	<u>694,751</u>
Cash, End of Year	<u><u>\$ 1,208,813</u></u>	<u><u>\$ 1,259,759</u></u>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,005,005	\$ 1,161,722
Cash in assets limited as to use	203,808	98,037
	<hr/>	<hr/>
Total cash	\$ 1,208,813	\$ 1,259,759
	<hr/>	<hr/>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (127,700)	\$ (75,729)
Depreciation	625,704	696,608
Construction in progress written off	92,075	-
Provision for uncollectible accounts	243,626	343,995
Change in operating assets and liabilities		
Patient accounts receivable	(143,679)	(435,997)
Property taxes receivable	41,317	12,013
Estimated amounts due from third-party payers	(293,598)	366,662
Supplies	14,190	21,504
Prepaid expenses and other	(46,286)	48,914
Advances to medical students	(4,254)	(11,334)
Pledges receivable	10,279	750
Accounts payable	64,071	167,825
Accrued salaries payable	(136,873)	(44,766)
Accrued benefits payable	12,239	(1,102)
Deferred property taxes	11,361	(4,690)
Other accrued liabilities	39,421	(24,447)
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 401,893	\$ 1,060,206
	<hr/>	<hr/>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 145,000	\$ -

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

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

Nature of Operations and Reporting Entity

Ellsworth County Medical Center (Medical Center) is a short-term acute care facility that is a component unit and an integral part of the overall reporting entity of Ellsworth County, Kansas. The Medical Center was organized and began operations on August 1, 1993, to provide inpatient and outpatient health care services for the benefit of the community. The Medical Center is operated by a Board of Trustees appointed by the County Commissioners of Ellsworth County, Kansas.

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 assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are 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). Pursuant to GASB Statement No. 20, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2012 or 2011.

Property Taxes

The Medical Center receives approximately 1% of its financial support from property taxes. One hundred percent of these appropriations were used to support operations. Taxes are assessed in November and are received beginning in January of each year. Ad valorem tax revenue is recognized in the period assessed to the extent such taxes are collected and available for use no later than 60 days after the end of the fiscal year.

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.

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 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.

Noncurrent Cash and Investments

Noncurrent cash and investments include designated assets set aside by the Board of Trustees for future capital improvements, education and physician recruitment, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets that are restricted for operating purposes, capital purposes and debt service. The funds are primarily invested in certificates of deposit and money market accounts.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

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 Medical Center:

Land improvements	15 years
Building	40 years
Fixed equipment	7 – 25 years
Major moveable equipment	5 – 20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Compensated Absences

Medical Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. 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 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 Assets

Net assets of the Medical Center are classified in three components. Net assets invested in capital assets, net of related debt, 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 assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

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

Charges excluded from revenue under the Medical Center's charity care policy were \$83,548 and \$89,423 for June 30, 2012 and 2011, respectively. The Medical Center's direct and indirect costs for services and supplies furnished under the Medical Center's charity care policy totaled \$64,572 and \$61,980 in 2012 and 2011, respectively. Costs were calculated using the overall cost-to-charge ratio from the June 30, 2012 and 2011, filed Medicare cost reports.

Income Taxes

As an essential government function of Ellsworth County, 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 Medical Center has obtained 501(c)(3) tax status for purposes of participating in a Section 403(b) pension plan.

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

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Medical Center 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 will recognize 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.

As of June 30, 2012, the Medical Center has not completed the first-year requirements under both the Medicare and Medicaid programs and has not recorded revenue.

Subsequent Events

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

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. These payment arrangements include:

Medicare. The Medical Center is licensed as a CAH, 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 Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Medical Center and audits 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 Medical Center is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Medical Center and reviews thereof by the Kansas Department of Health and Environment. The Medical Center is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

Approximately 55% and 56% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 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.

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; 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 June 30, 2012 and 2011, none of the Medical Center's bank balances of \$2,995,260 and \$3,274,074, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	2012	2011
Cash	\$ 1,004,687	\$ 1,161,404
Noncurrent cash and investments	<u>1,710,055</u>	<u>2,112,670</u>
	<u><u>\$ 2,714,742</u></u>	<u><u>\$ 3,274,074</u></u>

As of June 30, 2012, noncurrent cash and investments are comprised of certificates of deposits with remaining maturities of less than one year of \$1,205,668 and one to five years of \$300,579.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

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 June 30, 2012 and 2011, consisted of:

	2012	2011
Medicare	\$ 1,060,632	\$ 1,105,287
Medicaid	45,330	86,808
Blue Cross	336,728	310,802
Other third-party payers	269,236	357,993
Patients	195,183	225,514
	<u>1,907,109</u>	<u>2,086,404</u>
Less allowance for uncollectible accounts	<u>(208,616)</u>	<u>(287,964)</u>
	<u><u>\$ 1,698,493</u></u>	<u><u>\$ 1,798,440</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 66,713	\$ -	\$ (12,828)	\$ -	\$ 53,885
Land improvements	368,648	-	(2,975)	-	365,673
Buildings	4,282,477	-	(525,536)	-	3,756,941
Fixed equipment	523,224	21,016	-	-	544,240
Moveable equipment	3,424,150	470,019	(160,052)	-	3,734,117
Construction in progress	88,904	3,733	(92,075)	-	562
	<u>8,754,116</u>	<u>494,768</u>	<u>(793,466)</u>	<u>-</u>	<u>8,455,418</u>
Less accumulated depreciation					
Land improvements	292,133	23,529	(2,976)	-	312,686
Buildings	2,207,053	220,321	(163,770)	-	2,263,604
Fixed equipment	464,751	11,942	-	-	476,693
Moveable equipment	2,744,461	369,912	(159,670)	-	2,954,703
	<u>5,708,398</u>	<u>625,704</u>	<u>(326,416)</u>	<u>-</u>	<u>6,007,686</u>
Capital Assets, Net	<u><u>\$ 3,045,718</u></u>	<u><u>\$ (130,936)</u></u>	<u><u>\$ (467,050)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,447,732</u></u>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 66,713	\$ -	\$ -	\$ -	\$ 66,713
Land improvements	368,648	-	-	-	368,648
Buildings	4,282,477	-	-	-	4,282,477
Fixed equipment	523,224	-	-	-	523,224
Moveable equipment	3,344,185	116,485	(36,520)	-	3,424,150
Construction in progress	95,642	1,355	(8,093)	-	88,904
	<u>8,680,889</u>	<u>117,840</u>	<u>(44,613)</u>	<u>-</u>	<u>8,754,116</u>
Less accumulated depreciation					
Land improvements	267,436	24,697	-	-	292,133
Buildings	1,983,642	223,411	-	-	2,207,053
Fixed equipment	453,858	10,893	-	-	464,751
Moveable equipment	2,343,374	437,607	(36,520)	-	2,744,461
	<u>5,048,310</u>	<u>696,608</u>	<u>(36,520)</u>	<u>-</u>	<u>5,708,398</u>
Capital Assets, Net	<u>\$ 3,632,579</u>	<u>\$ (578,768)</u>	<u>\$ (8,093)</u>	<u>\$ -</u>	<u>\$ 3,045,718</u>

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Medical Center for the years ended June 30:

	2012					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
Series 2005 Hospital Revenue Bonds (A)	\$ 660,000	\$ -	\$ (660,000)	\$ -	\$ -	\$ -
Capital leases	340,232	145,000	(307,963)	177,269	139,919	37,350
	<u>\$ 1,000,232</u>	<u>\$ 145,000</u>	<u>\$ (967,963)</u>	<u>\$ 177,269</u>	<u>\$ 139,919</u>	<u>\$ 37,350</u>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

2011						
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
Series 2005 Hospital Revenue Bonds (A)	\$ 710,000	\$ -	\$ (50,000)	\$ 660,000	\$ 55,000	\$ 605,000
Capital leases	675,020	-	(334,788)	340,232	224,654	115,578
	<u>\$ 1,385,020</u>	<u>\$ -</u>	<u>\$ (384,788)</u>	<u>\$ 1,000,232</u>	<u>\$ 279,654</u>	<u>\$ 720,578</u>

- (A) Due December 1, 2020, principal payable annually beginning December 1, 2006, plus semi-annual interest payments at interest rates from 4.00% to 4.75%; secured by pledge of Medical Center's gross revenues and revenue bond funds. The bonds were called during 2012. The building in which the original proceeds were used to purchase was sold during 2012 to the Ellsworth County Healthcare Foundation for \$350,000. The proceeds had not been received as of June 30, 2012. The \$350,000 is reported as a pledge receivable in the accompanying balance sheet.

In September 2005, the Medical Center issued \$900,000 Ellsworth County, Kansas Hospital Revenue Bonds Series 2005. The Bonds were used to purchase a building with the remainder intended to be used to make capital improvements on the acquired structure. Under the terms of the bond indenture, the Medical Center was required to maintain certain revenue bond funds. These funds were included as assets limited as to use – revenue bond funds for debt service in the accompanying balance sheets and consist of the following at June 30:

	2012	2011
Bond reserve fund	\$ -	\$ 85,000

Scheduled principal and interest payments on long-term debt are as follows:

	Capital Leases	
	Principal	Interest
Year Ending June 30,		
2013	\$ 139,919	\$ 7,728
2014	37,350	541
	<u>\$ 177,269</u>	<u>\$ 8,269</u>

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

The following is an analysis of the financial presentation of the capitalized leases at June 30:

	2012	2011
Major moveable equipment	\$ 1,305,602	\$ 1,501,569
Less accumulated depreciation	<u>(1,126,200)</u>	<u>(1,166,656)</u>
	<u>\$ 179,402</u>	<u>\$ 334,913</u>

Note 7: Pension Plan

The Medical Center has a defined contribution plan (401(a) plan) in which all employees of the Medical Center become eligible for participation upon active employment. Employees were required by the plan to contribute 6.42% of their salary to the plan in 2012 and 2011. Employees are allowed to make additional contributions to the plan. The employer is also required by the plan to contribute 6.42% of employee salary in 2012 and 2011. The total cost of the plan was \$376,213 and \$457,940 for 2012 and 2011, respectively. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31.

In addition, the Medical Center has a 403(b) defined contribution plan in which all employees of the Medical Center become eligible for participation upon active employment. Employees are allowed to contribute any amount to this plan. The employer will match the first \$12 per pay period contributed by the employee. The total cost of the plan was \$32,975 and \$34,151 for 2012 and 2011, respectively. The Medical Center's contributions to the plan are 100% vested from the date of employee participation. The plan year begins on January 1 and ends December 31.

The Medical Center provides one additional defined contribution plan (457 plan). The Medical Center does not make contributions to the 457 plan. The plan year begins on January 1 and ends December 31.

Note 8: Management Agreement

The Medical Center purchases management services from Salina Regional Health Enterprises, Inc. under a five-year agreement, which expired June 30, 2009. The agreement is renewable for successive one-year terms, and was renewed through June 30, 2012. Fees incurred under the management agreement were \$66,000 and \$71,500 for 2012 and 2011, respectively.

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Notes to Financial Statements
June 30, 2012 and 2011

Note 9: Medical Malpractice Claims

The Medical Center 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 10: Contingencies

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. 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.

Note 11: Current Economic Conditions

The current protracted economic environment presents hospitals with difficult circumstances and challenges, which in some cases have resulted in large 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 Medical Center.

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 Medical Center'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 Medical Center's ability to maintain sufficient liquidity.

Supplementary Information

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Patient Service Revenue
Years Ended June 30, 2012 and 2011

	2012			
	Inpatient	Outpatient	Swing-bed	Total
Routine services				
Adult and pediatrics	\$ 989,750	\$ -	\$ -	\$ 989,750
Swing-bed	-	-	431,535	431,535
	<u>989,750</u>	<u>-</u>	<u>431,535</u>	<u>1,421,285</u>
Ancillary services				
Medical supplies	295,938	87,410	110,797	494,145
Emergency room	32,397	1,299,648	-	1,332,045
Clinic	-	3,198,286	-	3,198,286
Observation	10,092	153,625	-	163,717
Laboratory	569,427	2,730,042	100,976	3,400,445
Electrocardiology	139,732	510,957	21,477	672,166
Radiology	338,079	2,403,261	28,878	2,770,218
Pharmacy	1,076,896	1,972,511	439,738	3,489,145
Respiratory therapy	321,053	71,397	159,946	552,396
Physical, occupational and speech therapy	49,493	483,329	109,139	641,961
Sleep lab	-	-	-	-
	<u>2,833,107</u>	<u>12,910,466</u>	<u>970,951</u>	<u>16,714,524</u>
	<u>\$ 3,822,857</u>	<u>\$ 12,910,466</u>	<u>\$ 1,402,486</u>	18,135,809
Less				
Provision for uncollectible accounts				243,626
Contractual adjustments - third-party payers				4,798,955
Charity care				83,548
Administrative discounts				<u>192,560</u>
				<u>\$ 12,817,120</u>

2011			
Inpatient	Outpatient	Swing-bed	Total
\$ 1,015,750	\$ -	\$ -	\$ 1,015,750
-	-	429,855	429,855
1,015,750	-	429,855	1,445,605
343,792	93,962	113,241	550,995
55,456	953,275	-	1,008,731
-	3,476,395	-	3,476,395
19,708	153,416	-	173,124
672,037	2,647,549	120,439	3,440,025
192,447	549,804	17,773	760,024
425,900	2,330,130	45,668	2,801,698
1,175,002	1,847,106	559,233	3,581,341
324,379	71,384	144,563	540,326
39,309	501,784	88,186	629,279
-	23,122	-	23,122
3,248,030	12,647,927	1,089,103	16,985,060
\$ 4,263,780	\$ 12,647,927	\$ 1,518,958	18,430,665
			343,995
			4,834,497
			89,423
			181,310
			\$ 12,981,440

Ellsworth County Medical Center
A Component Unit of Ellsworth County, Kansas
Operating Expenses by Functional Division
Years Ended June 30, 2012 and 2011

	2012				
	Salaries and Wages	Supplies and Other and Benefits	Depreciation	Total	% of Total Operating Expenses
Routine services					
Adults and pediatrics (includes swing-bed)	\$ 1,200,744	\$ 182,505	\$ 19,762	\$ 1,403,011	10.71%
Ancillary services					
Medical supplies	105,467	117,156	20,824	243,447	1.86
Emergency room	495,016	118,202	1,611	614,829	4.69
Clinic	1,826,121	446,499	5,677	2,278,297	17.40
Laboratory	370,268	620,260	16,982	1,007,510	7.69
Electrocardiology	42,574	10,082	6,780	59,436	0.45
Radiology	423,216	514,656	174,798	1,112,670	8.49
Pharmacy	142,655	986,414	70,342	1,199,411	9.15
Respiratory therapy	145,549	28,435	7,218	181,202	1.38
Physical, occupational and speech therapy	217,188	62,883	2,536	282,607	2.16
	3,768,054	2,904,587	306,768	6,979,409	53.27
General services					
Administration and general	872,254	1,179,196	26,753	2,078,203	15.86
Employee health and welfare	113,929	728,805	-	842,734	6.43
Nursing administration	98,695	10,084	-	108,779	0.83
Medical records	258,040	93,636	6,908	358,584	2.74
Social services	84,400	11,414	-	95,814	0.73
Plant operations and maintenance	61,061	271,460	-	332,521	2.54
Housekeeping	150,806	34,048	-	184,854	1.41
Laundry	35,400	14,334	985	50,719	0.39
Dietary	260,912	141,209	1,293	403,414	3.08
Depreciation and amortization - building	-	-	263,235	263,235	2.01
	1,935,497	2,484,186	299,174	4,718,857	36.02
	\$ 6,904,295	\$ 5,571,278	\$ 625,704	\$ 13,101,277	100.00%
Percentage of total operating expenses	52.70%	42.52%	4.78%	100.00%	

2011				
Salaries and Wages	Supplies and Other and Benefits	Depreciation	Total	% of Total Operating Expenses
\$ 1,221,977	\$ 231,704	\$ 14,676	\$ 1,468,357	11.12%
100,083	99,766	20,824	220,673	1.67
373,966	80,414	439	454,819	3.44
1,875,374	489,235	13,223	2,377,832	18.00
396,786	609,230	13,063	1,019,079	7.71
42,196	12,546	6,780	61,522	0.47
368,766	510,685	241,834	1,121,285	8.48
79,256	1,076,527	70,342	1,226,125	9.28
128,723	32,629	9,770	171,122	1.30
230,005	64,962	3,101	298,068	2.26
3,595,155	2,975,994	379,376	6,950,525	52.61
844,817	1,111,850	25,878	1,982,545	15.00
17,240	970,183	-	987,423	7.48
118,811	13,951	-	132,762	1.01
246,069	77,285	6,908	330,262	2.50
70,787	10,099	-	80,886	0.61
59,612	292,104	-	351,716	2.66
162,990	45,119	-	208,109	1.58
34,678	10,488	985	46,151	0.35
257,068	144,804	1,293	403,165	3.05
-	-	267,492	267,492	2.03
1,812,072	2,675,883	302,556	4,790,511	36.27
\$ 6,629,204	\$ 5,883,581	\$ 696,608	\$ 13,209,393	100.00%
50.19%	44.54%	5.27%	100.00%	