

**Hamilton County Hospital**  
**A Component Unit of Hamilton County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



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

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## Independent Auditor's Report

Board of Trustees  
Hamilton County Hospital  
Syracuse, Kansas

We have audited the accompanying financial statements of Hamilton County Hospital, a component unit of Hamilton 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 Hamilton County Hospital as of December 31, 2012 and 2011, and 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 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.

*BKD, LLP*

Wichita, Kansas  
September 19, 2013

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

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 265,947	\$ 376,253
Patient accounts receivable, net of allowance; 2012 – \$194,000, 2011 – \$131,000	889,689	719,467
Sales tax receivable	13,927	16,443
Estimated amounts due from Medicaid	82,000	55,000
Supplies	121,023	95,033
Prepaid expenses and other	25,073	33,793
Total current assets	<u>1,397,659</u>	<u>1,295,989</u>
<b>Capital Assets, Net</b>	<u>1,460,942</u>	<u>1,301,711</u>
<b>Other Assets</b>		
Restricted cash - held by trustee	477,688	-
Purchase of RHC provider number	8,000	30,000
Deferred financing costs	6,523	9,938
Total other assets	<u>492,211</u>	<u>39,938</u>
Total assets	<u><u>\$ 3,350,812</u></u>	<u><u>\$ 2,637,638</u></u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 277,025	\$ 160,352
Accounts payable	284,376	139,867
Accrued expenses	375,872	298,241
Estimated amounts due to Medicare	201,000	185,000
Total current liabilities	1,138,273	783,460
<b>Long-term Debt</b>	<u>939,709</u>	<u>421,127</u>
Total liabilities	<u>2,077,982</u>	<u>1,204,587</u>
<b>Net Position</b>		
Net investment in capital assets	721,896	720,232
Unrestricted	550,934	712,819
Total net position	<u>1,272,830</u>	<u>1,433,051</u>
Total liabilities and net position	<u><u>\$ 3,350,812</u></u>	<u><u>\$ 2,637,638</u></u>

**Hamilton County Hospital**  
**A Component Unit of Hamilton County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$238,000, 2011 – \$125,000	\$ 5,639,296	\$ 5,509,511
Other	73,894	60,511
Total operating revenues	<u>5,713,190</u>	<u>5,570,022</u>
<b>Operating Expenses</b>		
Salaries and wages	3,544,865	3,181,408
Employee benefits	946,940	921,704
Purchased services and professional fees	739,950	808,771
Supplies and other	1,424,502	1,264,445
Depreciation and amortization	360,236	325,613
Total operating expenses	<u>7,016,493</u>	<u>6,501,941</u>
<b>Operating Loss</b>	<u>(1,303,303)</u>	<u>(931,919)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	919,629	842,259
Sales tax revenue	187,414	101,508
Interest income	9,764	9,028
Interest expense	(31,726)	(18,297)
Noncapital grants and gifts	30,501	40,714
Total nonoperating revenues	<u>1,115,582</u>	<u>975,212</u>
<b>Excess (Deficiency) of Revenue Over Expenses Before Transfers</b>	(187,721)	43,293
<b>Transfer from Hamilton County</b>	<u>27,500</u>	<u>27,500</u>
<b>Increase (Decrease) in Net Position</b>	(160,221)	70,793
<b>Net Position, Beginning of Year</b>	<u>1,433,051</u>	<u>1,362,258</u>
<b>Net Position, End of Year</b>	<u><u>\$ 1,272,830</u></u>	<u><u>\$ 1,433,051</u></u>

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

	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 5,458,074	\$ 5,515,803
Payments to suppliers and contractors	(2,025,004)	(2,083,121)
Payments to and on behalf of employees	(4,414,174)	(4,095,117)
Other receipts, net	73,894	60,511
	<u>(907,210)</u>	<u>(601,924)</u>
<b>Net cash used in operating activities</b>		
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue supporting operations	922,145	825,816
Sales taxes supporting operations	187,414	101,508
Interest paid on amount owed to Medicare	(25,713)	(11,006)
Noncapital grants and gifts	30,501	40,714
	<u>1,114,347</u>	<u>957,032</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(160,264)	(105,011)
Interest paid on long-term debt	(6,013)	(7,291)
Principal payments on long-term debt	(160,930)	(125,660)
	<u>(327,207)</u>	<u>(237,962)</u>
<b>Net cash used in capital and related financing activities</b>		
<b>Investing Activities</b>		
Interest income received	9,764	9,028
	<u>9,764</u>	<u>9,028</u>
<b>Net cash provided by investing activities</b>		
<b>Increase (Decrease) in Cash</b>	(110,306)	126,174
<b>Cash, Beginning of Year</b>	<u>376,253</u>	<u>250,079</u>
<b>Cash, End of Year</b>	<u><u>\$ 265,947</u></u>	<u><u>\$ 376,253</u></u>

**Hamilton County Hospital**  
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**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Net Operating Expenses to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (1,303,303)	\$ (931,919)
Depreciation and amortization	360,236	325,613
Changes in operating assets and liabilities		
Patient accounts receivable, net	(170,222)	176,292
Estimated amounts due from and to Medicare	(11,000)	(170,000)
Accounts payable and accrued expenses	234,349	(40,737)
Supplies and prepaid expenses	<u>(17,270)</u>	<u>38,827</u>
Net cash used in operating activities	<u><u>\$ (907,210)</u></u>	<u><u>\$ (601,924)</u></u>
 <b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ 345,997	\$ 35,000
Unexpended proceeds from capital lease obligations incurred for capital assets	\$ 477,688	\$ -
Long-term debt payment made by County	\$ 27,500	\$ 27,500
Capital assets acquisitions included in accounts payable	\$ -	\$ 12,209



**Hamilton County Hospital**  
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**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***

Hamilton County Hospital (Hospital) is an acute care hospital located in Syracuse, Kansas. The Hospital is a component unit of Hamilton County, Kansas (County). The Hospital is operated by a Board of Trustees elected by the registered voters of the County. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and long-term health care services to patients in the Hamilton County area. It also operates a clinic and an independent living facility.

***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, 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 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 to be cash equivalents. At December 31, 2012 and 2011, there were no cash equivalents.

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

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***Intergovernmental and Sales Tax Revenue***

The Hospital received approximately 16% and 14% of its financial support from the proceeds of intergovernmental and sales taxes in 2012 and 2011, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are levied by the County and shared with the Hospital for hospital operational purposes. Property taxes are assessed by the County 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.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

***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 property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Workers' Risk Cooperative for Counties. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty 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 for both workers' compensation and property and casualty risks.

***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.

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***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	15 – 20 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	4 – 18 years

***Other Assets***

Other assets include costs incurred in connection with the purchase of an existing Medicare rural health clinic provider number. Such costs are being amortized over a term of 60 months using the straight-line method.

***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 straight-line method.

***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 for earned vacation only, 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 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 two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

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***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.

***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. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

# **Hamilton County Hospital**

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### **Notes to Financial Statements**

#### **December 31, 2012 and 2011**

*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.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to 2011, rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$134,000 and are included in 2011 net patient service revenue. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 66% and 60% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The 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

# Hamilton County Hospital

## A Component Unit of Hamilton County, Kansas

### Notes to Financial Statements

#### December 31, 2012 and 2011

insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement of the 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 the PPACA's implementation.

### Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The 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, \$56,085 and \$82,522 of the Hospital's bank balances of \$339,691 and \$447,739 were exposed to custodial credit risk as follows:

	<b>2012</b>	<b>2011</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 56,085	\$ 82,522

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***Summary of Carrying Values***

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

	<b>2012</b>	<b>2011</b>
Carrying value		
Deposits	\$ 265,582	\$ 375,888
Petty cash	365	365
	<u>\$ 265,947</u>	<u>\$ 376,253</u>

**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 2011, consisted of:

	<b>2012</b>	<b>2011</b>
Medicare	\$ 440,086	\$ 375,033
Medicaid	83,127	87,988
Blue Cross	81,859	76,382
Other third-party payers	309,350	193,344
Patients	174,980	117,720
	<u>1,089,402</u>	<u>850,467</u>
Less allowance for uncollectible accounts	194,000	131,000
	<u>\$ 895,402</u>	<u>\$ 719,467</u>

**Hamilton County Hospital**  
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**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2012 and 2011, was:

<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 303	\$ -	\$ -	\$ 303
Land improvements	186,168	-	-	186,168
Buildings	3,501,927	-	-	3,501,927
Fixed equipment	1,047,166	76,690	-	1,123,856
Major moveable equipment	<u>2,540,172</u>	<u>417,361</u>	<u>-</u>	<u>2,957,533</u>
	<u>7,275,736</u>	<u>494,051</u>	<u>-</u>	<u>7,769,787</u>
Less accumulated depreciation				
Land improvements	165,180	2,110	-	167,290
Buildings	2,791,638	94,308	-	2,885,946
Fixed equipment	995,627	13,719	-	1,009,346
Major moveable equipment	<u>2,021,580</u>	<u>224,683</u>	<u>-</u>	<u>2,246,263</u>
	<u>5,974,025</u>	<u>334,820</u>	<u>-</u>	<u>6,308,845</u>
Capital Assets, Net	<u>\$ 1,301,711</u>	<u>\$ 159,231</u>	<u>\$ -</u>	<u>\$ 1,460,942</u>

  

<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 303	\$ -	\$ -	\$ 303
Land improvements	177,668	8,500	-	186,168
Buildings	3,483,505	18,422	-	3,501,927
Fixed equipment	1,047,166	-	-	1,047,166
Major moveable equipment	<u>2,414,874</u>	<u>125,298</u>	<u>-</u>	<u>2,540,172</u>
	<u>7,123,516</u>	<u>152,220</u>	<u>-</u>	<u>7,275,736</u>
Less accumulated depreciation				
Land improvements	163,213	1,967	-	165,180
Buildings	2,697,492	94,146	-	2,791,638
Fixed equipment	986,219	9,408	-	995,627
Major moveable equipment	<u>1,829,216</u>	<u>192,364</u>	<u>-</u>	<u>2,021,580</u>
	<u>5,676,140</u>	<u>297,885</u>	<u>-</u>	<u>5,974,025</u>
Capital Assets, Net	<u>\$ 1,447,376</u>	<u>\$ (145,665)</u>	<u>\$ -</u>	<u>\$ 1,301,711</u>



**Hamilton County Hospital**  
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**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 \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

**Note 7: 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 hired prior to July 1, 2009, are required to contribute 4% of their annual covered salary. Plan members hired on or after July 1, 2009, are required to contribute 6% 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 \$250,120, \$214,687 and \$196,362, 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%.

**Hamilton County Hospital**  
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**Note 8: Long-term Debt**

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2012 and 2011:

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable - County - 2007	\$ 165,000	\$ -	\$ 27,500	\$ 137,500	\$ 27,500
Note payable - County - 2009	275,000	-	90,000	185,000	90,000
Capital lease obligations	141,479	823,685	70,930	894,234	159,525
Total long-term debt	<u>\$ 581,479</u>	<u>\$ 823,685</u>	<u>\$ 188,430</u>	<u>\$ 1,216,734</u>	<u>\$ 277,025</u>

  

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable - County - 2007	\$ 192,500	\$ -	\$ 27,500	\$ 165,000	\$ 27,500
Note payable - County - 2009	360,000	-	85,000	275,000	90,000
Capital lease obligations	147,139	35,000	40,660	141,479	42,852
Total long-term debt	<u>\$ 699,639</u>	<u>\$ 35,000</u>	<u>\$ 153,160</u>	<u>\$ 581,479</u>	<u>\$ 160,352</u>

**Note Payable – County – 2007**

The note payable – County – 2007 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2007 (Bonds) in the original amount of \$275,000 dated November 1, 2007. These Bonds were purchased in their entirety by Wheatland Electric Cooperative at their par value with no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds of this loan were used to finance equipment purchases. The Bonds are payable in annual installments of \$27,500 through November 1, 2017.

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 27,500	\$ 27,500	\$ -
2014	27,500	27,500	-
2015	27,500	27,500	-
2016	27,500	27,500	-
2017	27,500	27,500	-
	<u>\$ 137,500</u>	<u>\$ 137,500</u>	<u>\$ -</u>

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***Note Payable – County – 2009***

The note payable – County – 2009 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2009 (Bonds) in the original amount of \$450,000 dated December 22, 2009, which bear interest ranging from 1.00% to 2.70%. The Bonds are payable in semiannual installments through September 1, 2014. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The debt service requirements as of December 31, 2012, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 94,725	\$ 90,000	\$ 4,725
2014	97,565	95,000	2,565
	<u>\$ 192,290</u>	<u>\$ 185,000</u>	<u>\$ 7,290</u>

***Capital Lease Obligations***

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2012 and 2011, totaled \$414,168 and \$242,375, net of accumulated depreciation of \$193,974 and \$117,972, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at the rates ranging from 4.34% to 6.16% together with the present value of the future minimum lease payments as of December 31, 2012:

<b>Year Ending December 31,</b>	
2013	\$ 196,200
2014	607,280
2015	145,064
Total minimum lease payments	<u>948,544</u>
Less amount representing interest	<u>54,310</u>
Present value of future minimum lease payments	<u>\$ 894,234</u>

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**Note 9: Management's Consideration of Going Concern Matters**

The Hospital has incurred losses from operations for the past three years. The financial statements have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year. These include evaluation of staffing patterns in the Hospital, recruiting employed physicians, pursuit of additional tax support, adjustments of charge rates for services to meet market conditions and other forms of financing. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

**Note 10: Subsequent Events**

On June 26, 2013, the County authorized the issuance of \$3,000,000 of No-Fund Warrants from the County to the Hospital to provide additional cash to support Hospital operations and pay outstanding accounts payable. The funds are held by the County and distributed to the Hospital as needed to fund operations. The warrants are general obligations of the County and do not constitute debt obligations of the Hospital.