

**Hodgeman County Health Center**  
**A Component Unit of Hodgeman County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



**Hodgeman County Health Center**  
**A Component Unit of Hodgeman County, Kansas**  
**December 31, 2012 and 2011**

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## Independent Auditor's Report

Board of Trustees  
Hodgeman County Health Center  
Jetmore, Kansas

We have audited the accompanying financial statements of Hodgeman County Health Center (Health Center), a component unit of Hodgeman 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 and the provisions of the Kansas Municipal Audit Guide; 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 Hodgeman County Health Center as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such 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 24, 2013

**Hodgeman County Health Center**  
**A Component Unit of Hodgeman County, Kansas**  
**Balance Sheets**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,356,192	\$ 1,192,067
Cash restricted for debt service	113,090	116,464
Patient accounts receivable, net	669,142	744,383
Estimated amounts due from third-party payers	310,000	330,000
Supplies	118,286	125,316
Prepaid expenses and other	91,122	90,772
Total current assets	2,657,832	2,599,002
<b>Noncurrent Cash and Certificates of Deposit -         Restricted for Debt Service</b>	183,577	178,089
<b>Capital Assets, Net</b>	6,083,149	6,500,221
<b>Unamortized Bond Costs</b>	-	8,206
Total assets	<u><u>\$ 8,924,558</u></u>	<u><u>\$ 9,285,518</u></u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 126,998	\$ 122,027
Accounts payable	164,188	189,797
Accrued expenses	329,687	306,792
Total current liabilities	620,873	618,616
<b>Long-term Debt</b>	729,372	856,370
Total liabilities	<u>1,350,245</u>	<u>1,474,986</u>
<b>Net Position</b>		
Net investment in capital assets	5,226,779	5,521,824
Restricted - expendable for debt service	296,667	294,553
Unrestricted	2,050,867	1,994,155
Total net position	<u>7,574,313</u>	<u>7,810,532</u>
Total liabilities and net position	<u><u>\$ 8,924,558</u></u>	<u><u>\$ 9,285,518</u></u>

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

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$231,970, 2011 - \$112,154	\$ 5,866,520	\$ 5,831,441
Electronic health records incentive	-	391,441
Bramley Place	113,152	132,755
Other	<u>77,475</u>	<u>73,067</u>
Total operating revenues	<u>6,057,147</u>	<u>6,428,704</u>
<b>Operating Expenses</b>		
Salaries and wages	2,818,091	2,663,411
Employee benefits	579,396	498,389
Purchased services and professional fees	1,212,368	1,070,971
Supplies and other	1,456,473	1,412,411
Depreciation	<u>470,149</u>	<u>453,968</u>
Total operating expenses	<u>6,536,477</u>	<u>6,099,150</u>
<b>Operating Income (Loss)</b>	<u>(479,330)</u>	<u>329,554</u>
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	279,000	279,000
Contributions and grants	5,928	29,360
Interest income	6,926	7,460
Interest expense	<u>(48,743)</u>	<u>(55,397)</u>
Total nonoperating revenues (expenses)	<u>243,111</u>	<u>260,423</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	(236,219)	589,977
<b>Transfer From Hodgeman County</b>	<u>-</u>	<u>277,584</u>
<b>Increase (Decrease) in Net Position</b>	(236,219)	867,561
<b>Net Position, Beginning of Year</b>	<u>7,810,532</u>	<u>6,942,971</u>
<b>Net Position, End of Year</b>	<u><u>\$ 7,574,313</u></u>	<u><u>\$ 7,810,532</u></u>

**Hodgeman County Health Center**  
**A Component Unit of Hodgeman County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 5,961,761	\$ 5,915,705
Payments to suppliers and contractors	(2,699,440)	(2,584,700)
Payments to and on behalf of employees	(3,373,492)	(3,087,988)
Other receipts, net	<u>190,627</u>	<u>205,822</u>
Net cash provided by operating activities	<u>79,456</u>	<u>448,839</u>
<b>Noncapital Financing Activities</b>		
Tax appropriations received	279,000	292,633
Contributions and grants received	5,928	29,360
Interest paid	<u>(303)</u>	<u>(977)</u>
Net cash provided by noncapital financing activities	<u>284,625</u>	<u>321,016</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(122,027)	(132,499)
Interest paid on long-term debt	(49,540)	(55,428)
Purchase of capital assets	<u>(33,201)</u>	<u>(217,037)</u>
Net cash used in capital and related financing activities	<u>(204,768)</u>	<u>(404,964)</u>
<b>Investing Activities</b>		
Interest income received	<u>6,414</u>	<u>6,653</u>
<b>Increase in Cash</b>	165,727	371,544
<b>Cash, Beginning of Year</b>	<u>1,413,416</u>	<u>1,041,872</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,579,143</u></u>	<u><u>\$ 1,413,416</u></u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 1,356,192	\$ 1,192,067
Cash restricted for debt service	<u>222,951</u>	<u>221,349</u>
Total cash	<u><u>\$ 1,579,143</u></u>	<u><u>\$ 1,413,416</u></u>

**Hodgeman County Health Center**  
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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 Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (479,330)	\$ 329,554
Depreciation	470,149	453,968
Amortization of bond costs	8,206	2,165
Changes in operating assets and liabilities		
Patient accounts receivable, net	75,241	(142,177)
Estimated amounts due from/to third-party payers	20,000	(165,000)
Supplies and prepaid expenses	6,680	(58,368)
Accounts payable and accrued expenses	<u>(21,490)</u>	<u>28,697</u>
Net cash provided by operating activities	<u>\$ 79,456</u>	<u>\$ 448,839</u>
<b>Supplemental Cash Flows Information</b>		
Transfers from County for facility improvements and equipment	\$ -	\$ 277,584
Capital assets acquisitions included in accounts payable	\$ -	\$ 19,876



**Hodgeman County Health Center**  
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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***

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the county commissioners. The Health Center consists of a hospital, long-term care unit, clinics and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

***Basis of Accounting and Presentation***

The financial statements of the Health 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 tax appropriations) 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 tax appropriations), interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash Equivalents***

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2012 and 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-

# **Hodgeman County Health Center**

## **A Component Unit of Hodgeman County, Kansas**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

insured institutions. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

#### ***Intergovernmental Revenue***

The Health Center received approximately 5% and 4% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2012 and 2011, respectively. One hundred percent of these funds were used to support operations in both years.

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.

#### ***Risk Management***

The Health 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded commercial coverage in any of the three preceding years.

#### ***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 cost, determined using the first-in, first-out method.

#### ***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 Health Center:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years

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The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in nonoperating revenues (expenses).

#### ***Compensated Absences***

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

#### ***Net Position***

Net position of the Health Center is classified in three components. Net investments in capital assets, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Health Center, including amounts on deposit as required by the bond indenture. Unrestricted net position is remaining assets less remaining liabilities that do not meet the above conditions.

#### ***Net Patient Service Revenue***

The Health Center has agreements with third-party payers that provide for payments to the Health 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.

# **Hodgeman County Health Center**

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### **Notes to Financial Statements**

**December 31, 2012 and 2011**

#### ***Charity Care***

The Health 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 Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

#### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Health Center's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrator Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the Health Center completed the first-year requirements under the Medicare and Medicaid program and has recorded revenue of approximately \$391,000.

#### ***Income Taxes***

As an essential government function of the County, the Health Center is 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.

**Hodgeman County Health Center**  
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**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 2: Net Patient Service Revenue**

The Health Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health Center uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health Center records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented as a component of net patient service revenue.

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

*Medicare.* The hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable costs subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare administrative contractor. The clinics are recognized as Rural Health Clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement is determined in a similar manner as for hospital services.

*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 Health Center (excluding long-term care) and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports and reviews thereof by the Kansas Department of Health and Environment. The Health 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.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Health Center 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 for the Health Center relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), totaled approximately \$46,000 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

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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 36% and 45% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Health Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement of the 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 Health Center's net patient service revenue. Additionally, it is possible the Health Center will experience payment delays and other operational challenges during the PPACA's implementation.

# Hodgeman County Health Center

## A Component Unit of Hodgeman County, Kansas

### Notes to Financial Statements

December 31, 2012 and 2011

#### 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 Health 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 acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2012 and 2011, none of the Health Center's deposits (checking and savings accounts and certificates of deposit) were exposed to custodial credit risk.

All certificates of deposit have maturities of one year or less and are reported at cost, which approximates fair value.

The carrying values of deposits at December 31, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	\$ 1,652,359	\$ 1,459,635
Petty cash	<u>500</u>	<u>500</u>
	<u><u>\$ 1,652,859</u></u>	<u><u>\$ 1,460,135</u></u>
Included in the following balance sheet captions		
Cash	\$ 1,356,192	\$ 1,192,067
Cash restricted for debt service	113,090	95,827
Noncurrent cash and certificate of deposit	<u>183,577</u>	<u>172,241</u>
	<u><u>\$ 1,652,859</u></u>	<u><u>\$ 1,460,135</u></u>

# Hodgeman County Health Center

## A Component Unit of Hodgeman County, Kansas

### Notes to Financial Statements

December 31, 2012 and 2011

#### Note 4: Patient Accounts Receivable

The Health Center grants credit without collateral to its patients, most of whom are local 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	\$ 178,030	\$ 192,509
Medicaid	11,790	30,054
Blue Cross	119,312	126,341
Other third-party payers	223,290	285,560
Self-pay	426,250	331,869
	<u>958,672</u>	<u>966,333</u>
Less allowance for uncollectible accounts	<u>289,530</u>	<u>221,950</u>
Patient accounts receivable, net	<u><u>\$ 669,142</u></u>	<u><u>\$ 744,383</u></u>

#### Note 5: Capital Assets

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

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 70,888	\$ -	\$ -	\$ -	\$ 70,888
Buildings	7,188,279	-	-	-	7,188,279
Fixed equipment	897,969	-	-	-	897,969
Moveable equipment	1,693,645	5,994	-	35,852	1,735,491
Construction in progress	20,874	47,083	-	(35,852)	32,105
	<u>9,871,655</u>	<u>53,077</u>	<u>-</u>	<u>-</u>	<u>9,924,732</u>
Less accumulated depreciation					
Land improvements	42,457	3,559	-	-	46,016
Buildings	2,097,176	206,154	-	-	2,303,330
Fixed equipment	299,051	84,217	-	-	383,268
Moveable equipment	932,750	176,219	-	-	1,108,969
	<u>3,371,434</u>	<u>470,149</u>	<u>-</u>	<u>-</u>	<u>3,841,583</u>
Capital assets, net	<u>\$6,500,221</u>	<u>\$ (417,072)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,083,149</u>



# Hodgeman County Health Center

## A Component Unit of Hodgeman County, Kansas

### Notes to Financial Statements

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	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 70,888	\$ -	\$ -	\$ -	\$ 70,888
Buildings	7,186,406	9,266	(7,393)	-	7,188,279
Fixed equipment	956,699	-	(58,730)	-	897,969
Moveable equipment	1,280,215	440,357	(26,927)	-	1,693,645
Construction in progress	-	20,874	-	-	20,874
	<u>9,494,208</u>	<u>470,497</u>	<u>(93,050)</u>	<u>-</u>	<u>9,871,655</u>
Less accumulated depreciation					
Land improvements	38,896	3,561	-	-	42,457
Buildings	1,896,632	207,937	(7,393)	-	2,097,176
Fixed equipment	272,534	85,247	(58,730)	-	299,051
Moveable equipment	802,454	157,223	(26,927)	-	932,750
	<u>3,010,516</u>	<u>453,968</u>	<u>(93,050)</u>	<u>-</u>	<u>3,371,434</u>
Capital assets, net	<u>\$6,483,692</u>	<u>\$ 16,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,500,221</u>

#### Note 6: Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$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 Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

# Hodgeman County Health Center

## A Component Unit of Hodgeman County, Kansas

### Notes to Financial Statements

December 31, 2012 and 2011

#### Note 7: Defined Contribution Plan

The Health Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Health Center's governing body. The Health Center's contribution rate was 3% for both 2012 and 2011. Contributions actually made by plan members and the Health Center aggregated \$113,717 and \$46,971 for 2012 and \$91,612 and \$44,388 for 2011, respectively.

#### Note 8: Long-term Debt

The following is a summary of long-term obligation transactions for the Health Center 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>
Long-term debt					
Revenue bonds payable	\$ 595,000	\$ -	\$ 60,000	\$ 535,000	\$ 65,000
Note payable - city	5,736	-	3,602	2,134	2,134
Capital lease obligations	377,661	-	58,425	319,236	59,864
Total long-term debt	<u>\$ 978,397</u>	<u>\$ -</u>	<u>\$ 122,027</u>	<u>\$ 856,370</u>	<u>\$ 126,998</u>

  

<b>2011</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds payable	\$ 650,000	\$ -	\$ 55,000	\$ 595,000	\$ 60,000
Note payable - city	9,266	-	3,530	5,736	3,602
Capital lease obligations	451,630	-	73,969	377,661	58,425
Total long-term debt	<u>\$ 1,110,896</u>	<u>\$ -</u>	<u>\$ 132,499</u>	<u>\$ 978,397</u>	<u>\$ 122,027</u>

**Hodgeman County Health Center**  
**A Component Unit of Hodgeman County, Kansas**

**Notes to Financial Statements**

**December 31, 2012 and 2011**

***Revenue Bonds Payable***

Revenue bonds payable consists of Limited Care Residential Facility Revenue Bonds (Bonds) in the original amount of \$1,100,000 dated March 1, 1999, with remaining interest rates of 5.5% and 5.7%. The Bonds are payable in annual installments of principal and interest through March 1, 2019. The Bonds are payable solely from the net revenues of the Health Center and cash and certificates of deposit restricted for debt service. The Bonds do not constitute a general obligation of the County.

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	\$ 93,437	\$ 65,000	\$ 28,437
2014	94,725	70,000	24,725
2015	90,805	70,000	20,805
2016	91,673	75,000	16,673
2017	92,255	80,000	12,255
2018 - 2019	<u>182,553</u>	<u>175,000</u>	<u>7,553</u>
	<u><u>\$ 645,448</u></u>	<u><u>\$ 535,000</u></u>	<u><u>\$ 110,448</u></u>

Cash and certificates of deposit relative to the Bonds at December 31, 2012 and 2011, are summarized as follows:

	<b>2012</b>	<b>2011</b>
Principal and interest fund	\$ 113,090	\$ 116,464
Bond reserve fund	118,333	117,749
Depreciation replacement fund	<u>65,244</u>	<u>60,340</u>
	296,667	294,553
Less current portion	<u>113,090</u>	<u>116,464</u>
	<u><u>\$ 183,577</u></u>	<u><u>\$ 178,089</u></u>

# Hodgeman County Health Center

## A Component Unit of Hodgeman County, Kansas

### Notes to Financial Statements

December 31, 2012 and 2011

#### **Note Payable – City**

The note payable – city consists of an agreement with the City of Jetmore due July 2013, with monthly payments of \$307 including interest at 2%.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	\$ 2,149	\$ 2,134	\$ 15

#### **Capital Lease Obligations**

The Health Center is obligated under leases for equipment that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Health Center. Assets under capital leases at December 31, 2012 and 2011, totaled \$297,205 and \$359,069, respectively, net of accumulated depreciation of \$143,381 and \$81,517, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates approximating 6% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 74,520
2014	74,520
2015	74,520
2016	74,520
2017	62,100
Total minimum lease payments	360,180
Less amount representing interest	40,944
Present value of future minimum lease payments	\$ 319,236