

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
LOGAN COUNTY HOSPITAL  
DECEMBER 31, 2012 AND 2011

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LOGAN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2012 and 2011

Our discussion and analysis of the financial performance of Logan County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2012 and 2011. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position increased during 2012 and decreased during 2011 with a \$3,861,449 or 111.7 percent increase in 2012 and a \$90,820 or 2.6 percent decrease in 2011.

The Hospital reported operating losses of \$529,642 and \$387,591 for 2012 and 2011, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LOGAN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2012 and 2011

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 4,134,769	\$ 2,978,591	\$ 2,747,934
Assets limited as to use	61,621	875,680	1,012,521
Capital assets, net	5,200,785	1,444,802	1,560,820
Other assets	<u>15,893</u>	<u>27,000</u>	<u>27,000</u>
Total assets	<u>\$ 9,413,068</u>	<u>\$ 5,326,073</u>	<u>\$ 5,348,275</u>
Liabilities			
Current liabilities	\$ 1,504,155	\$ 1,428,356	\$ 1,271,405
Long-term obligations	<u>590,205</u>	<u>440,458</u>	<u>528,791</u>
Total liabilities	<u>\$ 2,094,360</u>	<u>\$ 1,868,814</u>	<u>\$ 1,800,196</u>
Net position	<u>\$ 7,318,708</u>	<u>\$ 3,457,259</u>	<u>\$ 3,548,079</u>

In aggregate, the Hospital's unrestricted cash and invested cash (including limited use assets held by the Board of Trustees) total \$451,914 and \$1,019,348 as of December 31, 2012 and 2011, respectively. These represent 15 days and 37 days, respectively, of average cash expenses during each of the years then ended. The median value for similar hospitals is 99 days.

The Hospital's net patient accounts receivable were 73 percent of current assets as of December 31, 2012, 84 percent as of December 31, 2011, and 63 percent as of December 31, 2010. The average number of days of net patient revenue represented by them was 105 days, 96 days, and 73 days as of December 31, 2012, 2011, and 2010, respectively. The median value for similar hospitals is 56 days.

At the end of 2012, the Hospital has \$5,200,785 invested in capital assets, net of accumulated depreciation. This is \$3,755,983 more than at the end of 2011. The value of new capital assets placed in service totaled \$4,152,560, \$196,695, and \$147,453 during 2012, 2011, and 2010, respectively.

Construction of the Hospital's new Wellness Center building began late during 2011. It was completed and placed in service on June 18, 2012. The building and much of the equipment in it were paid for with capital contributions of \$3,674,434 from the County and \$123,350 from the Logan County Healthcare Foundation.

The Hospital financed \$314,930 and \$92,202 of equipment acquisitions with capital lease obligations during 2012 and 2011, respectively.

The Hospital's net position increased during 2012 and decreased during 2011 (an increase of \$3,861,449 or 111.7 percent during 2012 and a decrease of \$90,820 or 2.6 percent during 2011). The percentage of total assets financed with net position, or equity, was 77.8 percent, 64.9 percent, and 66.3 percent as of December 31, 2012, 2011, and 2010, respectively.

LOGAN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2012 and 2011

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 10,910,535	\$ 9,862,697	\$ 8,968,163
Operating expenses	<u>11,440,177</u>	<u>10,250,288</u>	<u>9,188,173</u>
Operating loss	(529,642)	(387,591)	(220,010)
Interest expense	(28,791)	(31,397)	(37,362)
County tax proceeds	268,397	270,000	276,118
Other nonoperating revenues	50,701	58,168	57,581
Capital grants and contributions	<u>4,100,784</u>	<u>                    </u>	<u>103,058</u>
Change in net position	<u>\$ 3,861,449</u>	<u>\$ (90,820)</u>	<u>\$ 179,385</u>

The first, and most significant, component of the overall change in the Hospital's net position is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The large increase in total net position during 2012 is due primarily to capital contributions.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Inpatient services	\$ 3,498,683	\$ 4,390,662	\$ 3,629,615
Nursing facility services	2,163,157	2,332,161	2,251,516
Outpatient services	8,122,252	6,080,531	5,781,110
Physician clinic services	<u>1,289,395</u>	<u>768,343</u>	<u>450,770</u>
Gross patient service revenue	15,073,487	13,571,697	12,113,011
Contractual adjustments	(4,259,784)	(3,787,256)	(3,252,762)
Medicaid DSH payments	175,141	143,758	215,245
Provision for bad debts	<u>(419,357)</u>	<u>(390,048)</u>	<u>(406,747)</u>
Net patient service revenue	<u>\$ 10,569,487</u>	<u>\$ 9,538,151</u>	<u>\$ 8,668,747</u>

Gross revenues from inpatient services decreased 20.3 percent during 2012 and increased 21.0 percent during 2011. Total patient days decreased 25.4 percent during 2012 and increased by 18.5 percent during 2011. Charge rate increases and changes in the mix of services provided accounted for much of the rest of the variation in gross revenues from inpatient services during each of those years.

LOGAN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Years ended December 31, 2012 and 2011

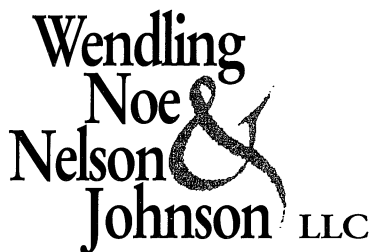
Gross revenues from nursing facility services rendered at the Logan County Manor decreased 7.2 percent and increased 3.6 percent during 2012 and 2011, respectively. Those changes were driven by changes in the number of residents and by increases in charge rates. Resident days at the Manor decreased by 7.2 percent during 2012 and increased by 1.0 percent during 2011. Average charge rates increased by 1.9 percent during 2011. There were no charge rate changes for the Manor during 2012. Gains occurred for revenues from outpatient services (33.6 percent and 5.2 percent during 2012 and 2011, respectively) as a result of increases in outpatient volume. The Hospital also assumed operations of a rural health clinic as of June 1, 2010, and on September 1, 2012, began operating a physician clinic in Colby, Kansas.

The Hospital has agreements with various third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 27.1 percent, 26.8 percent, and 25.1 percent during 2012, 2011, and 2010, respectively. These values are below those for similar hospitals (the median value is 41.6 percent) because only minimal adjustments are incurred for nursing facility services and those services account for approximately one-sixth of the Hospital's gross revenues. The Hospital's contractual adjustments for hospital services only were 34.9 percent, 36.8 percent, and 32.9 percent of gross revenue during 2012, 2011, and 2010, respectively.

The provision for bad debts represented 2.8 percent, 2.9 percent, and 3.4 percent of gross patient service revenue during 2012, 2011, and 2010, respectively. The Hospital's bad debt percentages are well below those for similar hospitals.

Employee salaries and wages increased by \$783,769 or 15.4 percent during 2012 and by \$347,409 or 7.3 percent during 2011. These changes are functions of changes in the number of employees and in pay rates. Total full-time equivalent employees increased by 6.0 percent and 4.7 percent during 2012 and 2011, respectively. Average pay rates increased by 8.9 percent and 2.5 percent during 2012 and 2011, respectively.

Supplies and other expenses increased by \$652,919 or 22.4 percent during 2011. Contract labor costs increased by \$310,306 (104.3 percent). There was an \$80,270 increase in physician recruitment costs. This was also the first year for the new nursing facility provider assessment program and the Hospital incurred a tax of \$71,813 for that program. All other supplies and other expenses increased by \$190,530 or 6.5 percent during 2011. Supplies and other expenses increased by \$191,542 or 5.4 percent during 2012. These percentage changes in supplies and other expenses are consistent with the patient volume gains and losses experienced by the Hospital and the general rate of health care inflation.



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#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Logan County Hospital

We have audited the accompanying financial statements of the business-type activity of Logan County Hospital (the Hospital) as of and for the years ended December 31, 2012 and 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, 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 our opinion on these financial statements based on our audit. We conducted our audit 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 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 previously present fairly, in all material respects, the financial position of the business-type activity of Logan County Hospital, as of December 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other-Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information presented on pages 22 through 24 is for purposes of additional analysis and is not a required part of the basic 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 audit 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 relations to the financial statements as a whole.

*Wendling Roe Nelson & Johnson LLC*  
Topeka, Kansas  
April 15, 2013



FINANCIAL STATEMENTS

LOGAN COUNTY HOSPITAL  
STATEMENTS OF NET POSITION  
December 31,

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash	\$ 390,293	\$ 143,668
Patient accounts receivable	3,034,241	2,497,278
County tax proceeds receivable	7,168	1,331
Other receivables	32,792	
Estimated third-party payor settlements	341,283	
Inventories	219,716	233,334
Prepaid expenses	<u>109,276</u>	<u>102,980</u>
Total current assets	4,134,769	2,978,591
ASSETS LIMITED AS TO USE		
Held by Board of Trustees	61,621	875,680
CAPITAL ASSETS - NET	5,200,785	1,444,802
OTHER ASSETS		
Advances to medical students	<u>15,893</u>	<u>27,000</u>
Total assets	<u>\$ 9,413,068</u>	<u>\$ 5,326,073</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 143,579	\$ 176,452
Accounts payable	272,057	275,642
Estimated third-party payor settlements		240,341
Accrued salaries, wages, and benefits	606,028	267,360
Deferred revenue	19,110	38,140
Accrued compensated absences	454,217	420,396
Accrued interest payable	9,164	10,025
Total current liabilities	1,504,155	1,428,356
LONG-TERM OBLIGATIONS, less current maturities	590,205	440,458
Total liabilities	2,094,360	1,868,814
NET POSITION		
Invested in capital assets - net of related debt	4,467,001	827,892
Unrestricted	2,851,707	2,629,367
Total net position	7,318,708	3,457,259
Total liabilities and net position	\$ 9,413,068	\$ 5,326,073

LOGAN COUNTY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year ended December 31,

	<u>2012</u>	<u>2011</u>
Operating revenues		
Net patient service revenue	\$ 10,569,487	\$ 9,538,151
Other revenue	<u>341,048</u>	<u>324,546</u>
Total operating revenues	<u>10,910,535</u>	<u>9,862,697</u>
Operating expenses		
Salaries and wages	5,871,807	5,088,038
Employee benefits	1,415,886	1,286,847
Supplies and other	3,757,325	3,565,783
Depreciation and amortization	<u>395,159</u>	<u>309,620</u>
Total operating expenses	<u>11,440,177</u>	<u>10,250,288</u>
Operating loss	<u>(529,642)</u>	<u>(387,591)</u>
Nonoperating revenues		
County tax proceeds	268,397	270,000
Interest income	14,969	20,180
Interest expense	(28,791)	(31,397)
Noncapital grants and contributions	27,605	31,457
Oil royalties	9,545	9,224
Loss on disposal of equipment	<u>(1,418)</u>	<u>(2,693)</u>
Total nonoperating revenues	<u>290,307</u>	<u>296,771</u>
Excess of expenses over revenues before capital grants and contributions	(239,335)	(90,820)
Capital grants and contributions	<u>4,100,784</u>	<u></u>
Change in net position	3,861,449	(90,820)
Net position at beginning of year	<u>3,457,259</u>	<u>3,548,079</u>
Net position at end of year	<u>\$ 7,318,708</u>	<u>\$ 3,457,259</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS  
Year ended December 31,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 9,394,703	\$ 9,087,283
Payments to or on behalf of employees	(6,915,204)	(6,517,348)
Payments for supplies and services	(3,753,588)	(3,503,291)
Other receipts and payments	<u>356,530</u>	<u>321,851</u>
Net cash used by operating activities	<u>(917,559)</u>	<u>(611,505)</u>
Cash flows from noncapital financing activities		
County tax proceeds	262,560	268,901
Noncapital grants and contributions	<u>27,605</u>	<u>31,457</u>
Net cash provided by noncapital financing activities	<u>290,165</u>	<u>300,358</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(4,152,560)	(196,695)
Capital grants and contributions	4,100,784	
Proceeds from sale of capital assets		400
Long-term obligations incurred	314,930	92,202
Payments on long-term obligations	(198,056)	(166,028)
Interest paid	<u>(29,652)</u>	<u>(32,271)</u>
Net cash provided (used) by capital and related financing activities	<u>35,446</u>	<u>(302,392)</u>
Cash flows from investing activities		
Change in assets limited as to use	814,059	136,841
Interest received	14,969	20,180
Oil royalties	<u>9,545</u>	<u>9,224</u>
Net cash provided by investing activities	<u>838,573</u>	<u>166,245</u>
Net change in cash and cash equivalents	246,625	(447,294)
Cash and cash equivalents at beginning of year	<u>143,668</u>	<u>590,962</u>
Cash and cash equivalents at end of year	<u>\$ 390,293</u>	<u>\$ 143,668</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended December 31,

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (529,642)	\$ (387,591)
Advances to medical students considered operating activity	11,107	
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	395,159	309,620
Provision for bad debts	419,357	390,048
Changes in		
Patient accounts receivable	(956,320)	(1,154,654)
Inventories and other current assets	(25,470)	4,902
Accounts payable and accrued expenses	349,874	(97,023)
Estimated third-party payor settlements	<u>(581,624)</u>	<u>323,193</u>
Net cash used by operating activities	<u>\$ (917,559)</u>	<u>\$ (611,505)</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

Logan County Hospital (the Hospital) is a county hospital located in Oakley, Kansas. The Hospital is operated under Kansas statutes as an entity legally separate from Logan County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. The County annually levies a tax for the Hospital. Bond issuances must be approved by the County. The Hospital is a discretely presented component unit of the County for financial statement purposes.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Cash and cash equivalents

The Hospital considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

5. Allowance for bad debts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

6. Supplies

Supplies inventories are stated at cost as determined on the first-in, first-out method.

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

7. Assets limited as to use

Assets whose use is limited include tax appropriations received from the County that have been set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

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. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

10. Net position

The net position of the Hospital is classified into two components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net position" is the remaining net position that does not meet the definition of the other component of net position.

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.



LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

13. Charity care

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

14. Income taxes

The Hospital is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

15. Subsequent events

The Hospital has evaluated subsequent events through April 15, 2013, which is the date the financial statements were available to be issued.

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2010.

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE B - REIMBURSEMENT PROGRAMS - Continued

Medicaid - Hospital services rendered to Medicaid beneficiaries not enrolled in a Medicaid managed care plan are paid under cost reimbursement methodologies. Services rendered to all other Medicaid beneficiaries are paid at prospectively determined rates. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years. The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment, Division of Health Care Finance (DHCF). The Hospital's Medicaid cost reports have been audited or reviewed by DHCF through December 31, 2009.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the Hospital, and other factors. The Hospital qualified for these disproportionate share payments during both 2012 and 2011.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross - Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

The Hospital has also entered into payment agreements with certain commercial insurance carriers 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 rate.

A summary of gross and net patient service revenue follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 15,073,487	\$ 13,571,697
Deductions from patient service revenue		
Third-party contractual adjustments	(4,259,784)	(3,787,256)
Medicaid disproportionate share payments	175,141	143,758
Provision for bad debts	<u>(419,357)</u>	<u>(390,048)</u>
Net patient service revenue	<u>\$ 10,569,487</u>	<u>\$ 9,538,151</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 17 percent, respectively, of the Hospital's net patient service revenue during 2012, and 43 percent and 19 percent, respectively, of the Hospital's net patient service revenue during 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2012, the carrying amount of the Hospital's bank deposits was \$451,814 and the bank balances were \$477,175, which were fully covered by federal depository insurance.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 390,193
Assets limited as to use	<u>61,621</u>
Total bank deposits	<u>\$ 451,814</u>

NOTE D - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable	\$ 3,554,459	\$ 3,000,879
Less allowance for bad debts	<u>(520,218)</u>	<u>(503,601)</u>
	<u>\$ 3,034,241</u>	<u>\$ 2,497,278</u>

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 1,837	\$ 620,349
Certificates of deposit	<u>59,784</u>	<u>255,331</u>
	<u>\$ 61,621</u>	<u>\$ 875,680</u>

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2012			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements and transfers</u>	<u>Ending balance</u>
Land	\$ 53,181	\$ -	\$ -	\$ 53,181
Land improvements	93,723			93,723
Buildings	2,040,784	3,813,885		5,854,669
Leasehold improvements	651,506			651,506
Fixed equipment	1,083,280	9,785		1,093,065
Major movable equipment	<u>2,804,542</u>	<u>328,890</u>	<u>261,664</u>	<u>2,871,768</u>
Totals at historical cost	<u>6,727,016</u>	<u>4,152,560</u>	<u>261,664</u>	<u>10,617,912</u>
Less accumulated depreciation and amortization				
Land improvements	87,599	2,273		89,872
Buildings	1,697,878	151,916		1,849,794
Leasehold improvements	154,779	39,213		193,992
Fixed equipment	936,307	15,715		952,022
Major movable equipment	<u>2,405,651</u>	<u>186,042</u>	<u>260,246</u>	<u>2,331,447</u>
	<u>5,282,214</u>	<u>395,159</u>	<u>260,246</u>	<u>5,417,127</u>
Capital assets, net	<u>\$ 1,444,802</u>	<u>\$ 3,757,401</u>	<u>\$ 1,418</u>	<u>\$ 5,200,785</u>

	2011			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements and transfers</u>	<u>Ending balance</u>
Land	\$ 53,181	\$ -	\$ -	\$ 53,181
Land improvements	93,723			93,723
Buildings	2,048,704		7,920	2,040,784
Leasehold improvements	631,927	19,579		651,506
Fixed equipment	1,061,771	21,509		1,083,280
Major movable equipment	<u>2,670,215</u>	<u>155,607</u>	<u>21,280</u>	<u>2,804,542</u>
Totals at historical cost	<u>6,559,521</u>	<u>196,695</u>	<u>29,200</u>	<u>6,727,016</u>
Less accumulated depreciation and amortization				
Land improvements	83,027	3,222	(1,350)	87,599
Buildings	1,653,216	49,490	4,828	1,697,878
Leasehold improvements	115,504	39,275		154,779
Fixed equipment	918,611	17,696		936,307
Major movable equipment	<u>2,228,343</u>	<u>199,937</u>	<u>22,629</u>	<u>2,405,651</u>
	<u>4,998,701</u>	<u>309,620</u>	<u>26,107</u>	<u>5,282,214</u>
Capital assets, net	<u>\$ 1,560,820</u>	<u>\$ (112,925)</u>	<u>\$ 3,093</u>	<u>\$ 1,444,802</u>

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE F - CAPITAL ASSETS - Continued

The Hospital operates a nursing facility owned by the County under the name of Logan County Manor (the Manor). Certain equipment used to operate the Manor is also owned by the County. The Hospital incurs no rental expense for use of the property and equipment owned by the County. County-owned assets are excluded from the Hospital's financial statements. Historical cost and accumulated depreciation for such assets are summarized as follows:

	<u>2012</u>	<u>2011</u>
Land, building, and fixed equipment	\$ 309,187	\$ 309,187
Major movable equipment	<u>56,754</u>	<u>56,754</u>
	365,941	365,941
Less accumulated depreciation	<u>260,279</u>	<u>246,509</u>
County-owned property and equipment, net	<u>\$ 105,662</u>	<u>\$ 119,432</u>

Construction of the Hospital's new Wellness Center building began late during 2011. It was completed and placed in service on June 18, 2012. The building and much of the equipment in it were paid for with capital contributions of \$3,674,434 from the County and \$123,350 from the Logan County Healthcare Foundation.

NOTE G - EMPLOYEE HEALTH INSURANCE

On January 1, 2012, the Hospital began sponsoring a self-insured employee health insurance plan. The Hospital reinsures a portion of its risk under the plan. The reinsurance arrangement generally covers claims totaling over \$40,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an agent to process and settle claims. The following is a summary of the activity under this arrangement for the year ended December 31, 2012:

Estimated net health insurance claims payable at beginning of year	\$ -
Provision for the Hospital's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	468,058
Participant contributions	122,323
Payments made for claims and related expenses	<u>(507,381)</u>
Estimated net health insurance claims payable at end of year	<u>\$ 83,000</u>

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2012</u>	<u>2011</u>
Agreement with Logan County for financing of Manor expansion (leasehold improvements), interest rate of 5.35% with semiannual payments of principal and interest through 2018	\$ 360,666	\$ 412,204
Capital lease obligations, imputed interest rates from 2.43% to 4.85%, collateralized by equipment with an amortized cost of \$491,422	<u>373,118</u>	<u>204,706</u>
	733,784	616,910
Less current maturities	<u>143,579</u>	<u>176,452</u>
Long-term obligations less current maturities	<u>\$ 590,205</u>	<u>\$ 440,458</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Agreement with Logan County</u>	<u>Total long-term obligations</u>
<u>Outstanding at January 1, 2011</u>	\$ 229,645	\$ 461,091	\$ 690,736
Obligations incurred	92,202		92,202
Payments on long-term obligations	<u>(117,141)</u>	<u>(48,887)</u>	<u>(166,028)</u>
Outstanding at December 31, 2011	204,706	412,204	616,910
Obligations incurred	314,930		314,930
Payments on long-term obligations	<u>(146,518)</u>	<u>(51,538)</u>	<u>(198,056)</u>
Outstanding at December 31, 2012	<u>\$ 373,118</u>	<u>\$ 360,666</u>	<u>\$ 733,784</u>

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS - Continued

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2012:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 89,247	\$ 11,042	\$ 100,289
2014	85,783	8,533	94,316
2015	76,653	5,665	82,318
2016	71,830	3,018	74,848
2017	<u>49,605</u>	<u>851</u>	<u>50,456</u>
Total minimum lease payments	<u>\$ 373,118</u>	<u>\$ 29,109</u>	402,227
Less amounts representing interest			<u>29,109</u>
Present value of net minimum lease payments			<u>\$ 373,118</u>

Scheduled annual debt service requirements on the agreement with Logan County are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 54,332	\$ 18,581	\$ 72,913
2014	57,277	15,636	72,913
2015	60,383	12,530	72,913
2016	63,657	9,257	72,914
2017	67,108	5,805	72,913
Thereafter	<u>57,909</u>	<u>2,167</u>	<u>60,076</u>
	<u>\$ 360,666</u>	<u>\$ 63,976</u>	<u>\$ 424,642</u>

NOTE I - DEFINED BENEFIT PENSION PLAN

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS following completion of one year of service. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for employees hired prior to July 1, 2009, and 6 percent of covered salary for employees hired on or after July 1, 2009. The employer collects and remits member-employee contributions according to the

LOGAN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2012 and 2011

NOTE I - DEFINED BENEFIT PENSION PLAN -Continued

provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation.

KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute for calendar years 2012 and 2011 were 8.09 percent and 7.49 percent, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2012 and 2011, were \$447,738 and \$355,974, respectively, equal to the statutory required contributions for each year.

NOTE J - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2012</u>	<u>2011</u>
Medicare	53.2%	57.6%
Medicaid	5.5	6.6
Blue Cross	14.5	9.2
Other insurers	9.6	5.8
Patients	<u>17.2</u>	<u>20.8</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE K - RISK MANAGEMENT

For the years ended December 31, 2012 and 2011, the Hospital was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies are currently in effect through January 1, 2014.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.



SUPPLEMENTARY INFORMATION

LOGAN COUNTY HOSPITAL  
PATIENT SERVICE REVENUE  
Year ended December 31,

	2012			2011		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Acute care	\$ 484,015	\$ -	\$ 484,015	\$ 667,413	\$ -	\$ 667,413
Swing-bed skilled nursing care	538,740		538,740	703,970		703,970
Nursing facility care	2,126,711		2,126,711	2,282,944		2,282,944
Operating room		419,321	419,321	5,089	449,630	454,719
Anesthesiology	2,782	231,976	234,758	22,470	250,059	272,529
Radiology	129,590	1,011,534	1,141,124	220,936	1,148,100	1,369,036
Computerized tomography	58,893	417,524	476,417			
Magnetic resonance imaging	8,566	184,677	193,243			
Laboratory	454,916	2,200,136	2,655,052	536,011	1,392,537	1,928,548
Respiratory therapy	580,472	93,176	673,648	658,044	64,075	722,119
Physical therapy	243,216	976,079	1,219,295	349,563	815,946	1,165,509
Occupational therapy	53,966	30,841	84,807	93,276	34,493	127,769
Speech therapy	4,533	6,746	11,279	12,423	20,974	33,397
Electrocardiology	72,936	148,497	221,433	61,803	88,389	150,192
Medical and surgical supplies	166,355	244,610	410,965	220,299	218,963	439,262
Pharmacy	689,353	881,707	1,571,060	825,841	562,058	1,387,899
Observation	3,594	116,820	120,414	1,807	70,257	72,064
Emergency room	43,104	894,878	937,982	60,765	737,775	798,540
Physician fees	98	218,270	218,368	169	181,061	181,230
Cardiac rehabilitation		45,460	45,460		46,214	46,214
Rural health clinic		887,367	887,367		768,343	768,343
Colby clinic services		402,028	402,028			
Total	<u>\$ 5,661,840</u>	<u>\$ 9,411,647</u>	15,073,487	<u>\$ 6,722,823</u>	<u>\$ 6,848,874</u>	13,571,697
Contractual adjustments			(4,259,784)			(3,787,256)
Medicaid disproportionate share payments			175,141			143,758
Provision for bad debts			(419,357)			(390,048)
Net patient service revenue			<u>\$ 10,569,487</u>			<u>\$ 9,538,151</u>

LOGAN COUNTY HOSPITAL  
OTHER REVENUE  
Year ended December 31,

	<u>2012</u>	<u>2011</u>
Apartment rental income	\$ 194,774	\$ 182,151
Cafeteria sales	28,544	24,300
Meals on wheels	15,096	14,272
Supply and drug sales to outsiders	15,650	18,909
Chart fees	1,140	1,088
Clinic rental income	1,838	123
Health Fair	26,078	23,814
Other	<u>57,928</u>	<u>59,889</u>
	<u>\$ 341,048</u>	<u>\$ 324,546</u>

LOGAN COUNTY HOSPITAL  
EXPENSES BY FUNCTIONAL DIVISION  
Year ended December 31,

	2012			2011		
	Salaries and <u>wages</u>	Supplies and other <u>expense</u>	<u>Total</u>	Salaries and <u>wages</u>	Supplies and other <u>expense</u>	<u>Total</u>
Nursing services	\$ 776,634	\$ 128,100	\$ 904,734	\$ 801,460	\$ 178,828	\$ 980,288
Nursing administration	157,257		157,257	143,572		143,572
Nursing facility services	1,470,945	483,667	1,954,612	1,436,830	550,255	1,987,085
Operating room	6,733	30,886	37,619	7,558	44,285	51,843
Anesthesiology		114,233	114,233		131,956	131,956
Radiology	137,480	225,372	362,852	139,481	247,345	386,826
Computerized tomography	7,407	3,063	10,470			
Magnetic resonance imaging	860	61,100	61,960			
Laboratory	209,427	390,731	600,158	191,355	365,596	556,951
Respiratory therapy	61,937	35,807	97,744	49,756	24,049	73,805
Physical therapy	525,182	139,148	664,330	395,915	36,140	432,055
Occupational therapy		46,018	46,018		66,537	66,537
Speech therapy		10,616	10,616		32,910	32,910
Cardiac rehabilitation	34,956	77,613	112,569	34,856	7,911	42,767
Emergency	191,749	3,839	195,588	154,437	2,316	156,753
Rural health clinic	787,637	231,433	1,019,070	668,807	367,252	1,036,059
Medical and surgical supplies	80,557	100,033	180,590	79,514	108,658	188,172
Pharmacy	63,680	412,703	476,383	60,160	336,672	396,832
Employee benefits		1,415,886	1,415,886		1,286,847	1,286,847
Employee housing		10,222	10,222			
Administration and general	454,468	707,686	1,162,154	412,987	717,334	1,130,321
Plant operation and maintenance	123,557	204,703	328,260	110,155	153,618	263,773
Laundry		44,390	44,390		40,741	40,741
Housekeeping	123,885	35,617	159,502	76,253	22,716	98,969
Dietary	129,352	104,965	234,317	131,669	98,225	229,894
Medical records	158,202	42,392	200,594	117,983	26,175	144,158
Social services	56,685	649	57,334	51,116	364	51,480
Apartments	25,510	10,224	35,734	24,174	5,900	30,074
Colby clinic services	287,707	102,115	389,822			
Depreciation and amortization		395,159	395,159		309,620	309,620
Total	<u>\$ 5,871,807</u>	<u>\$ 5,568,370</u>	<u>\$ 11,440,177</u>	<u>\$ 5,088,038</u>	<u>\$ 5,162,250</u>	<u>\$ 10,250,288</u>