

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
Independent Auditor's Report and Financial Statements  
December 31, 2012 and 2011



**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**December 31, 2012 and 2011**

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## **Independent Auditor's Report**

Board of Trustees  
Medicine Lodge Memorial Hospital  
Medicine Lodge, Kansas

### **Report on the Financial Statement**

We have audited the accompanying financial statements of Medicine Lodge Memorial Hospital, a component unit of Medicine Lodge Township, 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 audit 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 Medicine Lodge Memorial 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  
July 23, 2013

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Balance Sheets**  
**December 31, 2012 and 2011**

**Assets**

	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash	\$ 363,056	\$ 318,692
Patient accounts receivable, net of allowance; 2012 - \$512,642; 2011 - \$818,918	851,238	934,090
Property and sales tax receivable	233,226	175,985
Estimated amounts due from third-party payers	244,511	277,000
Supplies	268,520	252,705
Prepaid expenses and other	55,512	61,676
Other receivables	11,671	21,321
	<hr/>	<hr/>
Total current assets	2,027,734	2,041,469
	<hr/>	<hr/>
<b>Noncurrent Cash and Investments</b>		
Designated by Board of Trustees	306,829	500,750
Restricted by donors for capital acquisitions and specific operating activities	55,739	53,604
Held under bond indenture for capital acquisitions - held by Public Building Commission	261,840	267,857
Ranch land and mineral interests, at cost	89,078	89,078
	<hr/>	<hr/>
	713,486	911,289
	<hr/>	<hr/>
<b>Capital Assets, Net</b>	3,111,318	1,750,279
	<hr/>	<hr/>
Total assets	<u>\$ 5,852,538</u>	<u>\$ 4,703,037</u>

## Liabilities and Net Position

	2012	2011
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 97,605	\$ 90,696
Accounts payable	117,772	88,657
Accrued expenses	555,093	616,954
Total current liabilities	770,470	796,307
<b>Long-term Debt</b>	740,021	605,600
<b>Deferred Revenue</b>	190,000	310,000
Total liabilities	1,700,491	1,711,907
<b>Net Assets</b>		
Net investment in capital assets	2,535,532	1,321,840
Restricted - expendable for		
Specific operating activities	55,739	53,604
Unrestricted	1,560,776	1,615,686
Total net position	4,152,047	2,991,130
Total liabilities and net position	\$ 5,852,538	\$ 4,703,037

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, 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 - \$201,250, 2011 - \$290,819	\$ 6,340,791	\$ 7,031,884
Other	<u>343,493</u>	<u>376,494</u>
Total operating revenues	<u>6,684,284</u>	<u>7,408,378</u>
<b>Operating Expenses</b>		
Salaries and wages	4,093,498	4,762,997
Employee benefits	1,022,511	1,125,327
Purchased services and professional fees	836,556	718,072
Supplies and other	1,406,988	1,691,733
Depreciation	276,777	275,302
Gain on disposal of capital assets	<u>(2,248)</u>	<u>(2,900)</u>
Total operating expenses	<u>7,634,082</u>	<u>8,570,531</u>
<b>Operating Loss</b>	<u>(949,798)</u>	<u>(1,162,153)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property and sales taxes	509,578	464,450
Investment income	10,381	10,043
Interest expense	(16,791)	(17,536)
Noncapital grants and gifts	20,573	38,384
Ranch income, net of expense	<u>166,576</u>	<u>84,859</u>
Total nonoperating revenues	<u>690,317</u>	<u>580,200</u>
<b>Deficiency of Revenues Over Expenses Before Transfers</b>	(259,481)	(581,953)
<b>Transfer from County</b>	<u>1,420,398</u>	<u>610,708</u>
<b>Increase in Net Position</b>	1,160,917	28,755
<b>Net Position, Beginning of Year</b>	<u>2,991,130</u>	<u>2,962,375</u>
<b>Net Position, End of Year</b>	<u><u>\$ 4,152,047</u></u>	<u><u>\$ 2,991,130</u></u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, 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	\$ 6,456,132	\$ 7,130,632
Payments to suppliers and contractors	(3,250,163)	(3,434,712)
Payments to and on behalf of employees	(4,155,359)	(4,741,042)
Other receipts, net	233,143	324,601
	<u>(716,247)</u>	<u>(720,521)</u>
<b>Net cash used in operating activities</b>		
<b>Noncapital Financing Activities</b>		
Property and sales taxes supporting operations	452,337	455,337
Noncapital grants and gifts	20,573	38,384
	<u>472,910</u>	<u>493,721</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of long-term debt	163,285	-
Principal paid on long-term debt	(90,696)	(73,566)
Interest payments on long-term debt	(16,791)	(17,536)
Purchases of capital assets	(148,340)	(167,647)
Proceeds from disposition of capital assets	11,500	2,900
	<u>(81,042)</u>	<u>(255,849)</u>
<b>Net cash used in capital and related financing activities</b>		
<b>Investing Activities</b>		
Ranch operations	166,576	84,859
Oil and gas lease	-	360,000
Investment income	10,381	10,043
	<u>176,957</u>	<u>454,902</u>
<b>Net cash provided by investing activities</b>		
<b>Decrease in Cash</b>	(147,422)	(27,747)
<b>Cash, Beginning of Year</b>	<u>873,046</u>	<u>900,793</u>
<b>Cash, End of Year</b>	<u><u>\$ 725,624</u></u>	<u><u>\$ 873,046</u></u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 363,056	\$ 318,692
Cash in noncurrent cash and investments	<u>362,568</u>	<u>554,354</u>
<b>Total cash</b>	<u><u>\$ 725,624</u></u>	<u><u>\$ 873,046</u></u>



**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (949,798)	\$ (1,162,153)
Depreciation	276,777	275,302
Amortization of deferred revenue	(120,000)	(50,000)
Gain on sale of capital assets	(2,248)	(2,900)
Construction in progress written off	-	83,512
Provision for uncollectible accounts	201,250	290,819
Changes in operating assets and liabilities		
Patient accounts receivable, net	(118,398)	(90,071)
Estimated amounts due from and to third-party payers	32,489	(102,000)
Other receivables	9,650	(1,893)
Supplies	(15,815)	1,723
Prepaid expenses and other	6,164	(4,461)
Accounts payable and accrued expenses	<u>(36,318)</u>	<u>41,601</u>
Net cash used in operating activities	<u><u>\$ (716,247)</u></u>	<u><u>\$ (720,521)</u></u>
 <b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	<u><u>\$ -</u></u>	<u><u>\$ 29,501</u></u>
Bonds payable obligations incurred for capital assets	<u><u>\$ -</u></u>	<u><u>\$ 300,000</u></u>
Capital assets acquired with PBC Bond funds - transfer from County	\$ 1,420,398	\$ 610,708
Capital assets acquired with PBC Bond funds - Hospital obligation	74,758	32,143
Capital asset acquisitions included in accounts payable	<u>3,572</u>	<u>-</u>
Total non-cash construction in progress additions	<u><u>\$ 1,498,728</u></u>	<u><u>\$ 642,851</u></u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**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***

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

***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 property taxes, investment 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.

**Medicine Lodge Memorial Hospital**  
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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.

***Property and Sales Taxes***

The Hospital received approximately 8% and 6% in 2012 and 2011, respectively, of its financial support from property and sales taxes. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Sales tax revenue is recognized based on sales tax collected by the Township'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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

**Medicine Lodge Memorial Hospital**  
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**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***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. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

***Noncurrent Cash and Investments***

As of December 31, 2012 and 2011, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

***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 and leasehold improvements 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 Hospital:

Land improvements	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

***Compensated Absences***

Hospital policies permit most employees to accumulate vacation 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. 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.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Deferred Revenue***

Deferred revenue represents advance payments received for oil and gas exploration rights on land owned by the Hospital. Such payments are being amortized over the term of the lease using the straight-line method.

***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding 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 Hospital. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

***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.

***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.

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

***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.

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**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 licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor.

*Medicaid.* The Medicaid state plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Hospital and reviews thereof by the Kansas Department of Health and Environment. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 68% and 70% 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 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 case rates and discounts from established charges.

***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.

**Medicine Lodge Memorial Hospital**  
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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, \$0 and \$311,995 of the Hospital's bank balances of \$834,151 and \$982,879 were exposed to custodial credit risk as follows:

	<u><b>2012</b></u>	<u><b>2011</b></u>
Collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ -</u>	<u>\$ 311,995</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Summary of Carrying Values***

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

	<u><b>2012</b></u>	<u><b>2011</b></u>
Carrying value		
Deposits	\$ 724,824	\$ 872,246
Petty cash	<u>800</u>	<u>800</u>
	<u><u>\$ 725,624</u></u>	<u><u>\$ 873,046</u></u>
Included in the following balance sheet captions		
Cash in current assets	\$ 363,056	\$ 318,692
Designated by Board of Trustees	306,829	500,750
Restricted by donors	<u>55,739</u>	<u>53,604</u>
	<u><u>\$ 725,624</u></u>	<u><u>\$ 873,046</u></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 consisted of:

	<u><b>2012</b></u>	<u><b>2011</b></u>
Medicare	\$ 508,899	\$ 494,979
Medicaid	27,967	19,478
Blue Cross	85,173	118,275
Other third-party payers	114,143	388,058
Self-pay	<u>627,698</u>	<u>732,218</u>
	1,363,880	1,753,008
Less allowance for uncollectible accounts	<u>(512,642)</u>	<u>(818,918)</u>
	<u><u>\$ 851,238</u></u>	<u><u>\$ 934,090</u></u>



**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 7,579	\$ -	\$ -	\$ 7,579
Land improvements	65,045	-	-	65,045
Buildings	1,470,337	-	-	1,470,337
Fixed equipment	816,704	-	-	816,704
Major moveable equipment	2,279,045	12,535	27,352	2,264,228
Construction in progress	682,475	1,634,533	-	2,317,008
	<u>5,321,185</u>	<u>1,647,068</u>	<u>27,352</u>	<u>6,940,901</u>
Less accumulated depreciation				
Land improvements	65,045	-	-	65,045
Buildings	1,174,267	30,488	-	1,204,755
Fixed equipment	761,809	13,035	-	774,844
Major moveable equipment	1,569,785	233,254	18,100	1,784,939
	<u>3,570,906</u>	<u>276,777</u>	<u>18,100</u>	<u>3,829,583</u>
Capital Assets, Net	<u>\$ 1,750,279</u>	<u>\$ 1,370,291</u>	<u>\$ 9,252</u>	<u>\$ 3,111,318</u>

  

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 7,579	\$ -	\$ -	\$ 7,579
Land improvements	65,045	-	-	65,045
Buildings	1,470,337	-	-	1,470,337
Fixed equipment	810,977	5,727	-	816,704
Major moveable equipment	2,102,659	194,898	18,512	2,279,045
Construction in progress	120,886	645,101	83,512	682,475
	<u>4,577,483</u>	<u>845,726</u>	<u>102,024</u>	<u>5,321,185</u>
Less accumulated depreciation				
Land improvements	65,000	45	-	65,045
Buildings	1,143,298	30,969	-	1,174,267
Fixed equipment	749,045	12,764	-	761,809
Major moveable equipment	1,356,773	231,524	18,512	1,569,785
	<u>3,314,116</u>	<u>275,302</u>	<u>18,512</u>	<u>3,570,906</u>
Capital Assets, Net	<u>\$ 1,263,367</u>	<u>\$ 570,424</u>	<u>\$ 83,512</u>	<u>\$ 1,750,279</u>

**Medicine Lodge Memorial Hospital**  
**A Component Unit of Medicine Lodge Township, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 6: Accounts Payable and Accrued Expenses**

Accounts payable and expenses included in current liabilities at December 31 consisted of:

	<u>2012</u>	<u>2011</u>
Payable to suppliers and contractors	\$ 117,772	\$ 88,657
Payable to employees (including payroll taxes and benefits)	<u>555,093</u>	<u>616,954</u>
	<u><u>\$ 672,865</u></u>	<u><u>\$ 705,611</u></u>

**Note 7: 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.

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**Note 8: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 300,000	\$ -	\$ 11,750	\$ 288,250	\$ 14,750
Kansas State Bank Series 2012 Revenue Anticipation Bonds	-	232,026	-	232,026	-
Capital lease obligations	396,296	-	78,946	317,350	82,855
	<u>\$ 696,296</u>	<u>\$ 232,026</u>	<u>\$ 90,696</u>	<u>\$ 837,626</u>	<u>\$ 97,605</u>

  

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 11,750
Capital lease obligations	440,361	29,501	73,566	396,296	78,946
	<u>\$ 440,361</u>	<u>\$ 329,501</u>	<u>\$ 73,566</u>	<u>\$ 696,296</u>	<u>\$ 90,696</u>

***Public Building Commission Bonds Payable – 2011***

The Public Building Commission bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds Series 2011 in the original amount of \$6,000,000 dated July 20, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments beginning September 1, 2012 through September 1, 2026. Semi-annual interest only payments are due beginning March 1, 2012 through March 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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The Hospital's 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	\$ 25,464	\$ 14,750	\$ 10,714
2014	27,124	17,000	10,124
2015	26,944	17,500	9,444
2016	26,874	18,000	8,874
2017	27,040	18,750	8,290
2018 - 2022	135,208	104,000	31,208
2023 - 2027	108,260	98,250	10,010
	<u>\$ 376,914</u>	<u>\$ 288,250</u>	<u>\$ 88,664</u>

***Kansas State Bank Revenue Anticipation Series 2012 Bonds***

The Kansas State Bank Revenue Anticipation Series 2012 bonds payable consists of the amount of \$4,500,000 dated June 6, 2012, which bear interest at 3.0%. These bonds are payable in an annual payment on July 1, 2014. Quarterly interest only payments are due beginning October 1, 2012 through July 1, 2014. On April 23, 2012, the Hospital obtained a loan commitment from the United States Department of Agriculture (USDA) for the amount of the Kansas State Bank Revenue Anticipation bonds and permanent financing will be provided by USDA. As of December 31, 2012, the Hospital has not withdrawn the full amount of the available \$4,500,000 balance against the bonds.

The Hospital's 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	\$ 30,230	\$ -	\$ 30,230
2014	330,946	232,026	98,920
	<u>\$ 361,176</u>	<u>\$ 232,026</u>	<u>\$ 129,150</u>

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***Capital Lease Obligations***

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The cost of assets under capital leases at December 31, 2012 and 2011, totaled \$516,694 each year, with accumulated depreciation of \$254,263 and \$151,403, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates from 3.75% to 6.96%, together with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	
2013	\$ 95,398
2014	69,837
2015	60,732
2016	60,732
2017	51,326
2018 - 2021	17,182
Total minimum lease payments	355,207
Less amounts representing interest	37,857
	<hr/>
Present value of future minimum lease payments	\$ 317,350

**Note 9: Pension Plan**

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$129,263 and \$206,048 during 2012 and \$152,494 and \$259,290 during 2011, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

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The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled \$114,960 and \$114,763 during 2012 and 2011, respectively. The plan year begins on January 1 and ends December 31.

**Note 10: Management Agreement**

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. Fees incurred under the management agreement were \$85,619 and \$84,693 for 2012 and 2011, respectively. Additional fees paid to GPHA for services provided under this agreement were \$10,263 and \$12,916 for 2012 and 2011, respectively.

The Hospital entered into an agreement with Midwest Health Systems, Inc. (MHS) for data processing services. MHS was a wholly-owned subsidiary of GPHA until it was dissolved effective October 2008. GPHA assumed the agreement which was amended for a five-year term set to expire August 2010 with annual renewal options thereafter. Fees incurred under this agreement totaled \$123,907 and \$115,265 in 2012 and 2011, respectively. Additional fees paid to GPHA for services provided under this agreement were \$22,798 and \$20,266 for 2012 and 2011, respectively.

In 2008, an addendum to the MHS agreement was entered into by the Hospital in which the Hospital is committed to pay MHS an estimated remaining amount of \$802,512 in data access payments over the term of the agreement.

**Note 11: Contingencies**

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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**Note 12: Construction Project**

The Hospital is undertaking a building and renovation project of the current health care facility. Total cost of the project is anticipated to be approximately \$10,500,000. The project will be financed primarily with proceeds from the issuance of \$6,000,000 in Barber County, Kansas, Public Building Commission Revenue Bonds Series 2011 and \$4,500,000 in USDA – Rural Development funding (see *Note 8*).