

Ness County Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



Ness County Hospital District No. 2

December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Ness County Hospital District No. 2
Ness City, Kansas

We have audited the accompanying financial statements of Ness County Hospital District No. 2, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ness County Hospital District No. 2 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
April 17, 2013

Ness County Hospital District No. 2

Balance Sheets

December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 348,999	\$ 322,031
Short-term certificates of deposit	230,080	228,237
Restricted cash	31,593	22,183
Patient accounts receivable, net of allowance; 2012 - \$338,000, 2011 - \$269,000	819,930	1,098,705
Property taxes receivable	1,284,015	1,174,304
Estimated amounts due from Medicaid	164,000	90,000
Due from Medicare for electronic health records incentive	45,000	393,747
Supplies	135,165	132,504
Prepaid expenses and other	29,856	8,141
Total current assets	<u>3,088,638</u>	<u>3,469,852</u>
Capital Assets, Net	<u>2,563,066</u>	<u>2,839,970</u>
Other Assets		
Farm land	<u>156,142</u>	<u>156,142</u>
	<u>156,142</u>	<u>156,142</u>
Total assets	<u><u>\$ 5,807,846</u></u>	<u><u>\$ 6,465,964</u></u>

Liabilities and Net Position

	2012	2011
Current Liabilities		
Notes payable to banks, unsecured	\$ 99,108	\$ 369,340
Current maturities of long-term debt	59,014	264,606
Accounts payable	339,952	518,743
Accrued expenses	400,561	420,389
Deferred property tax revenue	1,284,015	1,174,304
Estimated amounts due to Medicare	116,000	100,000
Total current liabilities	2,298,650	2,847,382
Long-term Debt	92,500	149,548
Total liabilities	2,391,150	2,996,930
Net Position		
Net investment in capital assets	2,411,552	2,392,566
Restricted – expendable for specific operating activities	31,337	19,267
Unrestricted	973,807	1,057,201
Total net position	3,416,696	3,469,034
Total liabilities and net position	\$ 5,807,846	\$ 6,465,964

Ness County Hospital District No. 2
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$166,873, 2011 - \$49,472	\$ 6,799,318	\$ 6,904,381
Electronic health records incentive	-	393,747
Other	181,619	167,568
	<u>6,980,937</u>	<u>7,465,696</u>
Operating Expenses		
Salaries and wages	3,740,285	3,786,282
Employee benefits	1,298,294	1,276,912
Purchased services and professional fees	1,442,684	1,259,206
Supplies and other	1,510,989	1,540,349
Depreciation and amortization	311,404	340,744
	<u>8,303,656</u>	<u>8,203,493</u>
Operating Loss	<u>(1,322,719)</u>	<u>(737,797)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,219,623	1,026,890
Interest income	7,588	25,216
Interest expense	(9,914)	(48,913)
Noncapital grants and gifts	38,322	38,673
Oil lease royalties	333	10,400
Farm income	15,767	10,207
Farm expense	(1,338)	(85)
	<u>1,270,381</u>	<u>1,062,388</u>
Capital Grants and Gifts	<u>-</u>	<u>7,161</u>
Increase (Decrease) in Net Position	(52,338)	331,752
Net Position, Beginning of Year	<u>3,469,034</u>	<u>3,137,282</u>
Net Position, End of Year	<u><u>\$ 3,416,696</u></u>	<u><u>\$ 3,469,034</u></u>

Ness County Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,020,093	\$ 6,505,818
Payments to suppliers and contractors	(3,156,950)	(2,510,918)
Payments to and on behalf of employees	(5,058,297)	(5,011,686)
Other receipts, net	<u>530,366</u>	<u>179,448</u>
Net cash used in operating activities	<u>(664,788)</u>	<u>(837,338)</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,219,623	1,026,890
Noncapital grants and gifts	38,322	38,673
Proceeds from issuance of notes payable	-	373,700
Principal paid on notes payable to banks	(270,232)	(4,360)
Interest paid on notes payable and no fund warrants	<u>(5,805)</u>	<u>(16,319)</u>
Net cash provided by noncapital financing activities	<u>981,908</u>	<u>1,418,584</u>
Capital and Related Financing Activities		
Capital grants and gifts	-	7,161
Principal paid on long-term debt	(262,640)	(434,653)
Interest paid on long-term debt	(4,109)	(32,594)
Purchase of capital assets	(34,500)	(460,234)
Proceeds from sale of capital assets	<u>-</u>	<u>715</u>
Net cash used in capital and related financing activities	<u>(301,249)</u>	<u>(919,605)</u>
Investing Activities		
Interest income received	7,588	25,216
Purchase of certificates of deposit	(80,948)	(130,752)
Maturities of certificates of deposit	79,105	548,817
Oil lease income received	333	10,400
Farm income received	15,767	10,207
Farm expenses paid	<u>(1,338)</u>	<u>(85)</u>
Net cash provided by investing activities	<u>20,507</u>	<u>463,803</u>
Increase in Cash	36,378	125,444
Cash, Beginning of Year	<u>344,214</u>	<u>218,770</u>
Cash, End of Year	<u><u>\$ 380,592</u></u>	<u><u>\$ 344,214</u></u>

Ness County Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 348,999	\$ 322,031
Restricted cash	<u>31,593</u>	<u>22,183</u>
Total cash	<u><u>\$ 380,592</u></u>	<u><u>\$ 344,214</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (1,322,719)	\$ (737,797)
Depreciation and amortization	311,404	340,744
Loss on disposal of assets	-	11,880
Changes in operating assets and liabilities		
Patient accounts receivable, net	278,775	(383,563)
Estimated amounts due from and to Medicare	290,747	(408,747)
Accounts payable and accrued expenses	(198,619)	322,835
Other assets and liabilities	<u>(24,376)</u>	<u>17,310</u>
Net cash used in operating activities	<u><u>\$ (664,788)</u></u>	<u><u>\$ (837,338)</u></u>
Supplemental Cash Flows Information		
Capital asset additions included in accounts payable	\$ -	\$ 13,250

Ness County Hospital District No. 2

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

Ness County Hospital District No. 2 (Hospital) is an acute care hospital located in Ness City, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ness County area. It also operates a home health agency in the same geographic area.

The Ness County Health Foundation, Inc. (Foundation) is a legally separate, tax-exempt, not-for-profit organization whose purpose is to raise and hold funds to support the Hospital and its programs. The Board of Directors of the Hospital appoints a voting majority of the Board of the Foundation resulting in the Hospital being financially accountable for the Foundation with the Foundation being included in the Hospital's financial statements as a blended component unit.

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, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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

Use of Estimates

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

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, there were no cash equivalents.

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

Property Taxes

The Hospital received approximately 15% in 2012 and 12% in 2011 of its financial support from property taxes. One hundred percent of these funds were used to support operations.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

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. Settled claims have not exceeded this 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 the lower of cost, determined using the first-in, first-out method, or market.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations 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	10 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, 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 Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Ness County Hospital District No. 2

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Income Taxes

As an essential government entity, 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. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

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 Hospital'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 fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital 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.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

In 2011, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of \$393,747, which is included within operating revenues in the statement of revenues, expenses and changes in net position.

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.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to 2011, rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$117,000 and are included in 2011 net patient service revenue. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Approximately 59% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient Protection and Affordable Care Act

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

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

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during the PPACA's implementation.

Ness County Hospital District No. 2

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 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, \$184,506 and \$192,150 of the Hospital's bank balance of \$434,583 and \$442,410 was exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 184,506	\$ 192,150

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits – Hospital	\$ 444,902	\$ 423,266
Petty cash	345	345
	445,247	423,611
Deposits – Foundation	165,425	148,840
	\$ 610,672	\$ 572,451
Included in the following balance sheet captions:		
Cash	\$ 348,999	\$ 322,031
Short-term certificates of deposit	230,080	228,237
Restricted cash	31,593	22,183
	\$ 610,672	\$ 572,451

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

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:

	2012	2011
Medicare	\$ 414,279	\$ 584,355
Medicaid	93,759	118,103
Blue Cross	140,337	191,835
Other third-party payers	91,353	146,186
Patients	418,202	327,226
	<u>1,157,930</u>	<u>1,367,705</u>
Less allowance for uncollectible accounts	<u>338,000</u>	<u>269,000</u>
	<u>\$ 819,930</u>	<u>\$ 1,098,705</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2012			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ 115,387
Land improvements	204,515	-	-	204,515
Buildings	4,899,194	-	-	4,899,194
Fixed equipment	809,423	-	-	809,423
Major moveable equipment	1,815,805	10,500	(18,507)	1,807,798
Construction in progress	-	24,000	-	24,000
	<u>7,844,324</u>	<u>34,500</u>	<u>(18,507)</u>	<u>7,860,317</u>
Less accumulated depreciation				
Land improvements	198,817	3,510	-	202,327
Buildings	3,142,366	123,777	-	3,266,143
Fixed equipment	421,648	41,157	-	462,805
Major moveable equipment	1,241,523	142,960	(18,507)	1,365,976
	<u>5,004,354</u>	<u>311,404</u>	<u>(18,507)</u>	<u>5,297,251</u>
Capital Assets, Net	<u>\$ 2,839,970</u>	<u>\$ (276,904)</u>	<u>\$ -</u>	<u>\$ 2,563,066</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	204,515	-	-	-	204,515
Buildings	4,826,646	42,273	-	30,275	4,899,194
Fixed equipment	779,720	29,703	-	-	809,423
Major moveable equipment	1,333,769	400,793	(18,757)	100,000	1,815,805
Construction in progress	130,275	-	-	(130,275)	-
	<u>7,390,312</u>	<u>472,769</u>	<u>(18,757)</u>	<u>-</u>	<u>7,844,324</u>
Less accumulated depreciation					
Land improvements	195,307	3,510	-	-	198,817
Buildings	3,018,588	123,778	-	-	3,142,366
Fixed equipment	375,559	46,089	-	-	421,648
Major moveable equipment	1,082,634	165,766	(6,877)	-	1,241,523
	<u>4,672,088</u>	<u>339,143</u>	<u>(6,877)</u>	<u>-</u>	<u>5,004,354</u>
Capital Assets, Net	<u>\$ 2,718,224</u>	<u>\$ 133,626</u>	<u>\$ (11,880)</u>	<u>\$ -</u>	<u>\$ 2,839,970</u>

Note 6: Notes Payable to Banks

The Hospital periodically borrows funds from banks to finance operations on an interim basis. The notes payable bear interest at approximately 4.95% and 6.0% at December 31, 2012 and 2011, respectively. The notes are secured by a certificate of deposit and mature in less than one year from issuance. The following is a summary of short-term notes payable to banks transactions for the years ended December 31:

	2012	2011
Beginning balance	\$ 369,340	\$ -
Additions	-	373,700
Deductions	<u>(270,232)</u>	<u>(4,360)</u>
Ending balance	<u>\$ 99,108</u>	<u>\$ 369,340</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Note 7: Accounts Payable and Accrued Expenses

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

	2012	2011
Payable to suppliers and contractors	\$ 346,952	\$ 534,371
Payable to employees (including payroll taxes and benefits)	393,561	404,761
	<u>\$ 740,513</u>	<u>\$ 939,132</u>

Note 8: 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.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Note 9: 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	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of participation - Series 2008	\$ 200,000	\$ 200,000	\$ -	\$ -	
Western Cooperative Electric Loan - 2006	87,500	17,500	70,000	17,500	
Western Cooperative Electric Loan - 2010	80,000	20,000	60,000	20,000	
Capital lease obligations	46,654	25,140	21,514	21,514	
Total long-term debt	<u>\$ 414,154</u>	<u>\$ 262,640</u>	<u>\$ 151,514</u>	<u>\$ 59,014</u>	

		2011			
		Beginning Balance	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of participation - Series 2008	\$ 560,000	\$ 360,000	\$ 200,000	\$ 200,000	
Western Cooperative Electric Loan - 2006	105,000	17,500	87,500	17,500	
Western Cooperative Electric Loan - 2010	100,000	20,000	80,000	20,000	
Capital lease obligations	83,807	37,153	46,654	27,106	
Total long-term debt	<u>\$ 848,807</u>	<u>\$ 434,653</u>	<u>\$ 414,154</u>	<u>\$ 264,606</u>	

Western Cooperative Electric Loan – 2006

This note payable consists of an agreement with Western Cooperative Electric Association, Inc. in the original amount of \$175,000 dated August 24, 2006, which bears no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to finance building improvements. The bonds are payable in semi-annual installments through 2016. The Hospital is required to make semi-annual payments of \$8,750 to the debt service fund held by the trustee.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

Western Cooperative Electric Loan – 2010

This note payable consists of an agreement with Western Cooperative Electric Association, Inc. in the original amount of \$100,000 dated November 15, 2010, which bears no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to finance software. The bonds are payable in quarterly installments through 2015. The Hospital is required to make quarterly payments of \$5,000 to the debt service fund held by the trustee.

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

	Western Cooperative Electric Loan 2006	Western Cooperative Electric Loan 2010
Year Ending December 31,		
2013	\$ 17,500	\$ 20,000
2014	17,500	20,000
2015	17,500	20,000
2016	17,500	-
	<u>\$ 70,000</u>	<u>\$ 60,000</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as a capital lease. Assets under capital lease at December 31, 2012 and 2011, totaled \$27,407 and \$53,289, respectively, net of accumulated depreciation of \$139,596 and \$113,713, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rates of 4.50% to 4.54% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 22,490
Less amount representing interest	<u>976</u>
Present value of future minimum lease payments	<u>\$ 21,514</u>

Ness County Hospital District No. 2
Notes to Financial Statements
December 31, 2012 and 2011

Note 10: Operating Lease

The Hospital entered into a noncancellable operating lease for a CT scanner expiring on April 30, 2013. Rental payments include minimum rentals, plus additional fee per scan above minimum number of scans.

Future minimum lease payments at December 31, 2012, were:

2013	\$ 26,500
Future minimum lease payments	<u>\$ 26,500</u>

Rental expense was \$92,835 and \$95,765 for December 31, 2012 and 2011, respectively.

Note 11: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. 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 Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2012 and 2011, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated \$124,692 and \$96,472 during 2012 and \$132,449 and \$96,448 during 2011, respectively.

Note 12: Subsequent Event

Effective April 2013, the Hospital has signed a capital lease to purchase a new CT scanner for the amount of \$362,000 to be paid over 36 months.

Supplementary Information

Ness County Hospital District No. 2
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2012 and 2011

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	\$ 7,094,093	\$ 7,300,000	\$ (205,907)
Other revenue	<u>181,619</u>	<u>300,000</u>	<u>(118,381)</u>
Total operating revenue	<u>7,275,712</u>	<u>7,600,000</u>	<u>(324,288)</u>
Operating expenses	8,253,324	8,605,000	(351,676)
Capital expenditures	<u>34,500</u>	<u>550,000</u>	<u>(515,500)</u>
Operating expenses	<u>8,287,824</u>	<u>9,155,000</u>	<u>(867,176)</u>
Operating loss	<u>(1,012,112)</u>	<u>(1,555,000)</u>	<u>542,888</u>
Property tax revenue	1,219,623	1,246,619	(26,996)
Other nonoperating revenues	<u>44,572</u>	<u>70,161</u>	<u>(25,589)</u>
Total nonoperating revenues	<u>1,264,195</u>	<u>1,316,780</u>	<u>(52,585)</u>
Excess (deficiency) of revenue over expenses	<u>\$ 252,083</u>	<u>\$ (238,220)</u>	<u>\$ 490,303</u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.