

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Sheridan County Health Complex
Hoxie, Kansas

We have audited the accompanying financial statements of Sheridan County Health Complex, a component unit of Sheridan County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sheridan County Health Complex 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 schedules listed in the table of contents are 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
March 15, 2013

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Balance Sheets
December 31, 2012 and 2011

| | 2012 | 2011 |
|--|--------------------------|--------------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 1,156,356 | \$ 814,299 |
| Short-term certificates of deposit | 206,021 | 203,971 |
| Restricted cash - current | - | 160,953 |
| Patient accounts receivable, net of allowance; 2012 - \$250,000, 2011 - \$245,000 | 621,037 | 479,378 |
| Sales tax receivable | 97,500 | 57,500 |
| Estimated amounts due from third-party payers | 9,000 | 51,878 |
| Supplies | 103,922 | 95,573 |
| Prepaid expenses and other | 31,385 | 42,433 |
| | <hr/> | <hr/> |
| Total current assets | 2,225,221 | 1,905,985 |
| | | |
| Capital Assets, Net | <hr/> 1,218,597 | <hr/> 905,075 |
| | | |
| Total assets | <hr/> <hr/> \$ 3,443,818 | <hr/> <hr/> \$ 2,811,060 |
| | | |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 250,630 | \$ 174,329 |
| Accrued expenses | 343,105 | 268,683 |
| Deferred grant revenue | 25,596 | 23,294 |
| | <hr/> | <hr/> |
| Total current liabilities | 619,331 | 466,306 |
| | | |
| Net Position | | |
| Net investment in capital assets | 1,218,597 | 905,075 |
| Restricted - expendable for capital acquisitions | - | 160,953 |
| Unrestricted | 1,605,890 | 1,278,726 |
| | <hr/> | <hr/> |
| Total net position | 2,824,487 | 2,344,754 |
| | | |
| Total liabilities and net position | <hr/> <hr/> \$ 3,443,818 | <hr/> <hr/> \$ 2,811,060 |

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

| | 2012 | 2011 |
|--|----------------------------|----------------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$32,205, 2011 - \$(24,907) | \$ 6,141,665 | \$ 5,737,764 |
| Other | 65,499 | 63,367 |
| Total operating revenues | <u>6,207,164</u> | <u>5,801,131</u> |
| Operating Expenses | | |
| Salaries and wages | 3,779,538 | 3,346,226 |
| Employee benefits | 577,088 | 574,573 |
| Purchased services and professional fees | 697,608 | 833,919 |
| Supplies and other | 1,698,863 | 1,427,589 |
| Depreciation and amortization | 177,088 | 189,849 |
| Loss on sale of capital assets | - | 9,729 |
| Total operating expenses | <u>6,930,185</u> | <u>6,381,885</u> |
| Operating Loss | <u>(723,021)</u> | <u>(580,754)</u> |
| Nonoperating Revenues (Expenses) | | |
| Intergovernmental revenue | 524,588 | 416,787 |
| Sales tax revenue | 451,724 | 353,366 |
| Interest income | 7,484 | 9,360 |
| Interest expense | - | (1,171) |
| Noncapital grants and gifts | 218,958 | 131,624 |
| Total nonoperating revenues | <u>1,202,754</u> | <u>909,966</u> |
| Excess of Revenues Over Expenses Before Capital Grants and Gifts | 479,733 | 329,212 |
| Capital Grants and Gifts | <u>-</u> | <u>196,753</u> |
| Increase in Net Position | 479,733 | 525,965 |
| Net Position, Beginning of Year | <u>2,344,754</u> | <u>1,818,789</u> |
| Net Position, End of Year | <u><u>\$ 2,824,487</u></u> | <u><u>\$ 2,344,754</u></u> |

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
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 | \$ 6,042,884 | \$ 5,675,855 |
| Payments to suppliers and contractors | (2,317,471) | (2,259,625) |
| Payments to employees | (4,282,204) | (3,890,671) |
| Other receipts, net | <u>65,499</u> | <u>73,096</u> |
| Net cash used in operating activities | <u>(491,292)</u> | <u>(401,345)</u> |
| Noncapital Financing Activities | | |
| Intergovernmental revenue supporting operations | 524,588 | 416,787 |
| Sales taxes supporting operations | 411,724 | 348,866 |
| Noncapital grants and gifts | <u>221,260</u> | <u>118,557</u> |
| Net cash provided by financing activities | <u>1,157,572</u> | <u>884,210</u> |
| Capital and Related Financing Activities | | |
| Capital grants and gifts | - | 196,753 |
| Principal paid on long-term debt | - | (51,196) |
| Interest paid on long-term debt | - | (1,171) |
| Purchase of capital assets | <u>(490,610)</u> | <u>(327,655)</u> |
| Net cash used in capital and related financing activities | <u>(490,610)</u> | <u>(183,269)</u> |
| Investing Activities | | |
| Interest income received | 7,484 | 9,360 |
| Purchases of short-term certificates of deposit | (206,021) | (203,971) |
| Maturities of short-term certificates of deposit | <u>203,971</u> | <u>201,445</u> |
| Net cash provided by investing activities | <u>5,434</u> | <u>6,834</u> |
| Increase in Cash | 181,104 | 306,430 |
| Cash, Beginning of Year | <u>975,252</u> | <u>668,822</u> |
| Cash, End of Year | <u><u>\$ 1,156,356</u></u> | <u><u>\$ 975,252</u></u> |

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|----------------------------|
| Reconciliation of Net Operating Revenues (Expenses) | | |
| to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (723,021) | \$ (580,754) |
| Depreciation and amortization | 177,088 | 189,849 |
| Loss on sale of capital assets | - | 9,729 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (141,659) | (62,715) |
| Estimated amounts due from or to Medicare | 42,878 | 806 |
| Accounts payable and accrued expenses | 150,723 | 72,329 |
| Other assets and liabilities | <u>2,699</u> | <u>(30,589)</u> |
| Net cash used in operating activities | <u><u>\$ (491,292)</u></u> | <u><u>\$ (401,345)</u></u> |

Sheridan County Health Complex
A Component Unit of Sheridan County, 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

Sheridan County Health Complex (Hospital) is an acute care hospital located in Hoxie, Kansas. The Hospital is a component unit of Sheridan County, Kansas (County). The Hospital is operated by a Board of Trustees elected by the registered voters of Sheridan County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Sheridan County area. It also operates a long-term care unit and assisted living in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific (such as intergovernmental revenue), 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.

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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.

Intergovernmental and Sales Tax Revenue

The Hospital received approximately 13% and 11% in 2012 and 2011, respectively, of its financial support from the proceeds of intergovernmental and sales taxes. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than 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 on 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 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 (FIFO) method, or market.

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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 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 | 5 – 20 years |
| Buildings | 5 – 40 years |
| Fixed equipment | 5 – 25 years |
| Major moveable equipment | 3 – 20 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 consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position are 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 are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Sheridan County Health Complex
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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. 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 charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

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 (CAHs) 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.

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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 tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits 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. 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 \$78,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 50% 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. 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.

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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.

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, \$989,184 and \$709,131 of the Hospital's bank balances of \$1,500,456 and \$1,213,731 were exposed to custodial credit risk as follows:

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|--------------------|
| Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name | <u>\$ 989,184</u> | <u>\$ 709,131</u> |

Summary of Carrying Values

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

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Carrying value | | |
| Deposits | <u>\$ 1,362,377</u> | <u>\$ 1,179,223</u> |
| Included in the following balance sheet captions | | |
| Cash | \$ 1,156,356 | \$ 975,252 |
| Short-term certificates of deposit | <u>206,021</u> | <u>203,971</u> |
| | <u>\$ 1,362,377</u> | <u>\$ 1,179,223</u> |

Sheridan County Health Complex
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Notes to Financial Statements
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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011, consisted of:

| | 2012 | 2011 |
|---|--------------------------|--------------------------|
| Medicare | \$ 414,763 | \$ 306,949 |
| Medicaid | 19,962 | 9,808 |
| Blue Cross | 81,501 | 93,886 |
| Other third-party payers | 99,726 | 55,560 |
| Patients | <u>255,085</u> | <u>258,175</u> |
| | 871,037 | 724,378 |
| Less allowance for uncollectible accounts | <u>250,000</u> | <u>245,000</u> |
| | <u><u>\$ 621,037</u></u> | <u><u>\$ 479,378</u></u> |

Note 5: Capital Assets

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

| | 2012 | | | |
|-------------------------------|------------------------------|--------------------------|--------------------|----------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 18,208 | \$ - | \$ - | \$ 18,208 |
| Land improvements | 170,618 | - | - | 170,618 |
| Buildings | 3,084,909 | 149,797 | - | 3,234,706 |
| Fixed equipment | 832,656 | 57,785 | - | 890,441 |
| Major moveable equipment | 1,447,784 | 203,694 | - | 1,651,478 |
| Construction in progress | <u>13,500</u> | <u>79,334</u> | <u>-</u> | <u>92,834</u> |
| | <u>5,567,675</u> | <u>490,610</u> | <u>-</u> | <u>6,058,285</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 160,044 | 1,330 | - | 161,374 |
| Buildings | 2,910,611 | 39,992 | - | 2,950,603 |
| Fixed equipment | 509,226 | 34,446 | - | 543,672 |
| Major moveable equipment | <u>1,082,719</u> | <u>101,320</u> | <u>-</u> | <u>1,184,039</u> |
| | <u>4,662,600</u> | <u>177,088</u> | <u>-</u> | <u>4,839,688</u> |
| Capital assets, net | <u><u>\$ 905,075</u></u> | <u><u>\$ 313,522</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,218,597</u></u> |

Sheridan County Health Complex
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Notes to Financial Statements
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| | 2011 | | | |
|-------------------------------|------------------------------|-------------------|-------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 18,208 | \$ - | \$ - | \$ 18,208 |
| Land improvements | 170,618 | - | - | 170,618 |
| Buildings | 3,211,660 | - | (126,751) | 3,084,909 |
| Fixed equipment | 770,477 | 98,242 | (36,063) | 832,656 |
| Major moveable equipment | 1,915,600 | 215,913 | (683,729) | 1,447,784 |
| Construction in progress | - | 13,500 | - | 13,500 |
| | <u>6,086,563</u> | <u>327,655</u> | <u>(846,543)</u> | <u>5,567,675</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 157,307 | 2,737 | - | 160,044 |
| Buildings | 2,969,253 | 68,109 | (126,751) | 2,910,611 |
| Fixed equipment | 512,142 | 29,524 | (32,440) | 509,226 |
| Major moveable equipment | 1,670,863 | 89,479 | (677,623) | 1,082,719 |
| | <u>5,309,565</u> | <u>189,849</u> | <u>(836,814)</u> | <u>4,662,600</u> |
| Capital assets, net | <u>\$ 776,998</u> | <u>\$ 137,806</u> | <u>\$ (9,729)</u> | <u>\$ 905,075</u> |

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of claims-made coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

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Notes to Financial Statements
December 31, 2012 and 2011

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31, 2011:

| | 2011 | | | | |
|---------------------------|----------------------|-----------|-------------|-------------------|--------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Capital lease obligations | \$ 51,196 | \$ - | \$ (51,196) | \$ - | \$ - |

Capital Lease Obligations

At December 31, 2011, the Hospital was obligated under leases for equipment that are accounted for as capital leases. The cost of assets under capital leases for the years ended December 31, 2011, totaled \$152,091, with accumulated depreciation of \$46,188.

Note 8: Operating Lease

The Hospital has entered into an operating lease for a CT scanner for a term of three years. The lease requires the Hospital to pay certain executory costs (property taxes, maintenance and insurance).

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

| | |
|------|-----------|
| 2013 | \$ 79,200 |
|------|-----------|

Rent expense for all operating leases was \$79,200 for the years ended December 31, 2012 and 2011.

Sheridan County Health Complex
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December 31, 2012 and 2011

Note 9: 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 a board of trustees appointed by the Sheridan County Health Complex Board. 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 1.97% and 0.82% for 2012 and 2.16% and 0.85% for 2011, respectively. Contributions actually made by plan members and the Hospital aggregated \$73,372 and \$30,693 during 2012 and \$72,151 and \$28,498 during 2011, respectively.

Note 10: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

Supplementary Information

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2012 and 2011

| | 2012 | | |
|---|---------------------|---------------------|---------------------|
| | Inpatient | Outpatient | Total |
| Nursing, Dietary and Room Services | | | |
| Acute hospital | \$ 220,499 | \$ 164,567 | \$ 385,066 |
| Swing-bed and night care | 242,980 | - | 242,980 |
| Long-term care | 1,564,543 | - | 1,564,543 |
| Assisted living | 174,525 | - | 174,525 |
| | <u>2,202,547</u> | <u>164,567</u> | <u>2,367,114</u> |
| Operating room | 1,966 | 43,736 | 45,702 |
| Delivery room | 110 | - | 110 |
| Anesthesiology | 2,560 | 17,680 | 20,240 |
| Radiology | 40,545 | 508,158 | 548,703 |
| Laboratory | 58,709 | 636,616 | 695,325 |
| Physical therapy | 71,689 | 163,912 | 235,601 |
| Occupational therapy | 14,806 | 2,971 | 17,777 |
| Speech therapy | 797 | 2,821 | 3,618 |
| Electrocardiology | 5,290 | 143,333 | 148,623 |
| Central supply | 254,908 | 92,194 | 347,102 |
| Pharmacy | 821,642 | 858,026 | 1,679,668 |
| Clinic | - | 19,523 | 19,523 |
| Emergency room | 4,546 | 157,033 | 161,579 |
| Treatment room | 1,576 | 199,737 | 201,313 |
| Rural health clinics | - | 942,359 | 942,359 |
| Lifeline | - | 19,347 | 19,347 |
| | <u>\$ 3,481,691</u> | <u>\$ 3,972,013</u> | <u>7,453,704</u> |
| Contractual Allowance | | | (1,279,834) |
| Provision for Uncollectible Accounts | | | <u>(32,205)</u> |
| Net Patient Service Revenue | | | <u>\$ 6,141,665</u> |

| 2011 | | |
|---------------------|---------------------|---------------------|
| Inpatient | Outpatient | Total |
| \$ 212,800 | \$ 254,193 | \$ 466,993 |
| 211,836 | - | 211,836 |
| 1,486,882 | - | 1,486,882 |
| 151,454 | - | 151,454 |
| <u>2,062,972</u> | <u>254,193</u> | <u>2,317,165</u> |
| 2,500 | 98,333 | 100,833 |
| - | 246 | 246 |
| 6,240 | 39,520 | 45,760 |
| 51,973 | 487,114 | 539,087 |
| 66,470 | 586,844 | 653,314 |
| 56,625 | 165,190 | 221,815 |
| 20,700 | 3,315 | 24,015 |
| 1,095 | 2,481 | 3,576 |
| 7,577 | 127,255 | 134,832 |
| 267,858 | 124,750 | 392,608 |
| 456,170 | 371,383 | 827,553 |
| 50 | 30,729 | 30,779 |
| 5,551 | 154,459 | 160,010 |
| 3,158 | 147,162 | 150,320 |
| - | 838,025 | 838,025 |
| <u>-</u> | <u>16,527</u> | <u>16,527</u> |
| <u>\$ 3,008,939</u> | <u>\$ 3,447,526</u> | 6,456,465 |
| | | (743,608) |
| | | <u>24,907</u> |
| | | <u>\$ 5,737,764</u> |

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Contractual Allowances and Other Operating Revenues
Years Ended December 31, 2012 and 2011

Contractual Allowances

| | <u>2012</u> | <u>2011</u> |
|------------|----------------------------|--------------------------|
| Medicare | \$ 667,425 | \$ 359,281 |
| Medicaid | 2,657 | (115,702) |
| Blue Cross | 300,495 | 247,000 |
| Commercial | 133,001 | 103,780 |
| Charity | 71,569 | 72,959 |
| Other | <u>104,687</u> | <u>76,290</u> |
| | <u><u>\$ 1,279,834</u></u> | <u><u>\$ 743,608</u></u> |

Other Operating Revenues

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|-------------------------|-------------------------|
| Cafeteria sales | \$ 38,018 | \$ 34,993 |
| Supplies sold | 16,421 | 13,080 |
| Medical records transcript fees | 2,485 | 1,750 |
| Vending machines | 1,574 | 1,414 |
| Activities | 630 | 1,019 |
| Other | <u>6,371</u> | <u>11,111</u> |
| | <u><u>\$ 65,499</u></u> | <u><u>\$ 63,367</u></u> |

Sheridan County Health Complex
A Component Unit of Sheridan County, Kansas
Operating Expenses
Years Ended December 31, 2012 and 2011

| | 2012 | | |
|--|--------------|--------------|--------------|
| | Salaries | Other | Total |
| Nursing service | \$ 559,372 | \$ 74,724 | \$ 634,096 |
| Long-term care | 853,288 | 117,475 | 970,763 |
| Assisted living | 23,186 | 499 | 23,685 |
| Operating room | 3,628 | 7,318 | 10,946 |
| Anesthesia | - | 18,996 | 18,996 |
| Radiology | 131,292 | 276,498 | 407,790 |
| Laboratory | 172,549 | 241,019 | 413,568 |
| Physical therapy | 60,157 | 35,722 | 95,879 |
| Occupational therapy | - | 16,368 | 16,368 |
| Speech therapy | - | 5,552 | 5,552 |
| Electrocardiology | - | 2,334 | 2,334 |
| Central supply | 25,492 | 39,647 | 65,139 |
| Pharmacy | 61,244 | 311,485 | 372,729 |
| Clinic | 20,323 | - | 20,323 |
| Emergency room | 47,250 | 207,031 | 254,281 |
| Treatment room | 8,771 | - | 8,771 |
| Rural health clinics | 529,973 | 332,329 | 862,302 |
| Depreciation - building and fixed equipment | - | 80,392 | 80,392 |
| Employee benefits | - | 577,088 | 577,088 |
| Purchasing | 26,798 | 3,654 | 30,452 |
| Business office | 249,620 | 62,404 | 312,024 |
| Administrative and general | 269,345 | 334,425 | 603,770 |
| Plant operation and maintenance | 106,904 | 171,701 | 278,605 |
| Laundry and linen | 87,572 | 15,366 | 102,938 |
| Housekeeping | 84,876 | 23,561 | 108,437 |
| Dietary | 219,467 | 165,278 | 384,745 |
| Nursing administration | 77,311 | 4,977 | 82,288 |
| Medical records | 90,508 | 21,142 | 111,650 |
| Social service | 35,837 | 853 | 36,690 |
| Activities | 34,775 | 2,809 | 37,584 |
| Loss on sale of assets | - | - | - |
| | \$ 3,779,538 | \$ 3,150,647 | \$ 6,930,185 |

| 2011 | | |
|---------------------|---------------------|---------------------|
| Salaries | Other | Total |
| \$ 551,250 | \$ 47,975 | \$ 599,225 |
| 721,552 | 111,335 | 832,887 |
| 36,345 | 9,507 | 45,852 |
| 8,936 | 9,569 | 18,505 |
| - | 42,422 | 42,422 |
| 147,475 | 246,652 | 394,127 |
| 204,154 | 209,624 | 413,778 |
| 60,403 | 32,867 | 93,270 |
| - | 20,267 | 20,267 |
| - | 1,463 | 1,463 |
| - | 2,993 | 2,993 |
| 23,392 | 45,925 | 69,317 |
| 50,375 | 161,692 | 212,067 |
| 11,176 | 488 | 11,664 |
| 71,537 | 267,098 | 338,635 |
| 21,524 | 348 | 21,872 |
| 338,461 | 348,430 | 686,891 |
| - | 104,825 | 104,825 |
| - | 574,573 | 574,573 |
| 26,048 | 2,162 | 28,210 |
| 219,776 | 68,276 | 288,052 |
| 229,353 | 330,065 | 559,418 |
| 87,917 | 161,354 | 249,271 |
| 73,824 | 14,064 | 87,888 |
| 80,459 | 22,588 | 103,047 |
| 214,530 | 155,837 | 370,367 |
| 303 | 2,722 | 3,025 |
| 101,586 | 26,632 | 128,218 |
| 36,241 | 477 | 36,718 |
| 29,609 | 3,700 | 33,309 |
| - | 9,729 | 9,729 |
| <u>\$ 3,346,226</u> | <u>\$ 3,035,659</u> | <u>\$ 6,381,885</u> |