

Stafford County Hospital
A Component Unit of Stafford County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2012 and 2011



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A Component Unit of Stafford County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Stafford County Hospital
Stafford, Kansas

We have audited the accompanying financial statements of Stafford County Hospital, a component unit of Stafford 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 Stafford County 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in Note 9, the Hospital has suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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
August 1, 2013

Stafford County Hospital
A Component Unit of Stafford County, Kansas
Balance Sheets
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash	\$ 121,391	\$ 187,832
Patient accounts receivable, net of allowance; 2012 - \$154,000, 2011 - \$166,000	419,349	309,317
Property tax receivable	908	4,315
Estimated amounts due from Medicare and Medicaid	200,000	210,000
Supplies	79,470	90,357
Prepaid expenses and other	<u>25,442</u>	<u>10,659</u>
Total current assets	846,560	812,480
Capital Assets, Net	<u>431,646</u>	<u>514,274</u>
Total assets	<u><u>\$ 1,278,206</u></u>	<u><u>\$ 1,326,754</u></u>
 Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 38,254	\$ 37,511
Accounts payable	119,503	610,396
Accrued expenses	<u>217,551</u>	<u>193,587</u>
Total current liabilities	375,308	841,494
Long-term Debt	<u>40,579</u>	<u>86,326</u>
Total liabilities	<u>415,887</u>	<u>927,820</u>
Net Position		
Net investment in capital assets	352,813	390,437
Unrestricted	<u>509,506</u>	<u>8,497</u>
Total net position	<u>862,319</u>	<u>398,934</u>
Total liabilities and net position	<u><u>\$ 1,278,206</u></u>	<u><u>\$ 1,326,754</u></u>

Stafford County Hospital
A Component Unit of Stafford County, Kansas
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 - \$50,000, 2011 - \$119,000	\$ 3,181,070	\$ 3,609,371
Other	<u>49,589</u>	<u>24,897</u>
Total operating revenues	<u>3,230,659</u>	<u>3,634,268</u>
Operating Expenses		
Salaries and wages	1,641,748	2,045,497
Employee benefits	402,333	776,150
Purchased services and professional fees	894,303	763,843
Supplies and other	784,342	1,023,510
Depreciation	<u>109,142</u>	<u>130,012</u>
Total operating expenses	<u>3,831,868</u>	<u>4,739,012</u>
Operating Loss	<u>(601,209)</u>	<u>(1,104,744)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	475,000	475,000
No-fund warrants	555,000	-
Interest income	1,051	421
Interest expense	(2,886)	(1,785)
Noncapital grants and gifts	<u>36,429</u>	<u>12,218</u>
Total nonoperating revenues (expenses)	<u>1,064,594</u>	<u>485,854</u>
Increase (Decrease) in Net Position	463,385	(618,890)
Net Position, Beginning of Year	<u>398,934</u>	<u>1,017,824</u>
Net Position, End of Year	<u><u>\$ 862,319</u></u>	<u><u>\$ 398,934</u></u>

Stafford County Hospital
A Component Unit of Stafford 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	\$ 3,081,038	\$ 3,691,411
Payments to suppliers and contractors	(2,173,434)	(1,288,550)
Payments to and on behalf of employees	(2,020,117)	(2,850,204)
Other receipts, net	<u>35,588</u>	<u>36,814</u>
Net cash used in operating activities	<u>(1,076,925)</u>	<u>(410,529)</u>
Noncapital Financing Activities		
Property taxes supporting operations	478,407	470,685
No-fund warrants	555,000	-
Noncapital grants and gifts	<u>36,429</u>	<u>12,218</u>
Net cash provided by noncapital financing activities	<u>1,069,836</u>	<u>482,903</u>
Capital and Related Financing Activities		
Principal paid on capital lease	(45,004)	(63,861)
Interest paid on capital lease	(2,886)	(1,785)
Purchase of capital assets	(42,980)	(11,207)
Proceeds from disposal of capital assets	<u>30,467</u>	<u>43,000</u>
Net cash used in capital and related financing activities	<u>(60,403)</u>	<u>(33,853)</u>
Investing Activities		
Interest income received	<u>1,051</u>	<u>421</u>
Net cash provided by investing activities	<u>1,051</u>	<u>421</u>
Increase (Decrease) in Cash	(66,441)	38,942
Cash, Beginning of Year	<u>187,832</u>	<u>148,890</u>
Cash, End of Year	<u><u>\$ 121,391</u></u>	<u><u>\$ 187,832</u></u>

Stafford County Hospital
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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	\$ (601,209)	\$ (1,104,744)
Depreciation	109,142	130,012
(Gain) loss on disposal of capital assets	(14,001)	11,917
Changes in operating assets and liabilities		
Patient accounts receivable, net	(110,032)	166,040
Estimated amounts due from and to Medicare	10,000	(84,000)
Accounts payable and accrued expenses	(466,929)	406,212
Other assets	(3,896)	64,034
	<u>(1,076,925)</u>	<u>(410,529)</u>
Net cash used in operating activities	<u>\$ (1,076,925)</u>	<u>\$ (410,529)</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 19,869

Stafford County Hospital
A Component Unit of Stafford 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

Stafford County Hospital (Hospital) is an acute care hospital located in Stafford, Kansas. The Hospital is a component unit of Stafford County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stafford County area. It also operates a home health agency 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, 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 is 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.

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.

Stafford County Hospital
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Notes to Financial Statements
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Intergovernmental Revenue

The Hospital received approximately 11% in 2012 and 12% in 2011 of its financial support from intergovernmental revenue derived from property taxes levied by the County. One hundred percent of these funds were used to support operations.

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

On June 1, 2012, the County authorized the issuance of \$555,000 of no-fund warrants from the County to the Hospital to provide additional cash to support Hospital operations and pay outstanding accounts payable. The warrants are general obligations of the County and do not constitute debt obligations of the Hospital.

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 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.

Stafford County Hospital
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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	10 – 15 years
Buildings	5 – 40 years
Fixed equipment	10 – 25 years
Major moveable equipment	5 – 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 two 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. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

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.

Stafford County Hospital
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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.

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. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The Hospital is reimbursed for certain services 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 Hospital is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid rural health clinic services are reimbursed under a cost-based methodology. The Hospital and rural health clinic services 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.

Approximately 76% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both 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.

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.

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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.

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, none of the Hospital's bank balances of \$192,545 and \$103,004 were exposed to custodial credit risk.

Stafford County Hospital
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Notes to Financial Statements
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Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 120,891	\$ 187,332
Petty cash	500	500
	<u>\$ 121,391</u>	<u>\$ 187,832</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 as of December 31, 2012 and 2011, consisted of:

	2012	2011
Medicare	\$ 307,507	\$ 152,847
Medicaid	7,409	8,447
Blue Cross	13,661	41,669
Other third-party payers	66,803	74,540
Patients	177,969	197,814
	<u>573,349</u>	<u>475,317</u>
Less allowance for uncollectible accounts	154,000	166,000
	<u>\$ 419,349</u>	<u>\$ 309,317</u>

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Notes to Financial Statements
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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	\$ 24,001	\$ -	\$ -	\$ 24,001
Land improvements	13,647	-	-	13,647
Buildings	163,390	30,415	(27,920)	165,885
Fixed equipment	141,626	7,610	-	149,236
Major moveable equipment	536,040	4,955	-	540,995
	<u>878,704</u>	<u>42,980</u>	<u>(27,920)</u>	<u>893,764</u>
Less accumulated depreciation				
Land improvements	4,869	1,521	-	6,390
Buildings	53,104	17,227	(11,454)	58,877
Fixed equipment	53,577	17,391	-	70,968
Major moveable equipment	252,880	73,003	-	325,883
	<u>364,430</u>	<u>109,142</u>	<u>(11,454)</u>	<u>462,118</u>
Capital Assets, Net	<u>\$ 514,274</u>	<u>\$ (66,162)</u>	<u>\$ (16,466)</u>	<u>\$ 431,646</u>
	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 24,001	\$ -	\$ -	\$ 24,001
Land improvements	13,647	-	-	13,647
Buildings	163,390	-	-	163,390
Fixed equipment	141,626	-	-	141,626
Major moveable equipment	589,394	19,869	(73,223)	536,040
	<u>932,058</u>	<u>19,869</u>	<u>(73,223)</u>	<u>878,704</u>
Less accumulated depreciation				
Land improvements	3,348	1,521	-	4,869
Buildings	35,666	17,438	-	53,104
Fixed equipment	36,441	17,136	-	53,577
Major moveable equipment	177,269	93,917	(18,306)	252,880
	<u>252,724</u>	<u>130,012</u>	<u>(18,306)</u>	<u>364,430</u>
Capital Assets, Net	<u>\$ 679,334</u>	<u>\$ (110,143)</u>	<u>\$ (54,917)</u>	<u>\$ 514,274</u>

Stafford County Hospital
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Notes to Financial Statements
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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 \$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.

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2012 and 2011:

2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 123,837	\$ -	\$ 45,004	\$ 78,833	\$ 38,254
2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 167,829	\$ 19,869	\$ 63,861	\$ 123,837	\$ 37,511

Stafford County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease as of December 31, 2012 and 2011, totaled \$127,225 and \$151,585, respectively, net of accumulated depreciation of \$65,985 and \$41,625, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at the rate of 8% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	\$ 40,393
2014	26,522
2015	2,893
2016	2,893
2017	2,892
2018 - 2021	11,572
Total minimum lease payments	<u>87,165</u>
Less amount representing interest	<u>8,332</u>
Present value of future minimum lease payments	<u>\$ 78,833</u>

Note 8: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas, 66603-3803, or by calling 1.888.275.5737.

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Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 7.34%, 6.74% and 6.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contribution to the plan for 2012, 2011 and 2010, was \$116,143, \$137,490 and \$138,848, respectively, which equaled the required contribution. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 9: Management's Consideration of Going Concern Matters

The Hospital has incurred losses from operations for the past three years. The financial statements have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year. These include evaluation of staffing patterns in the Hospital, pursuit of additional tax support, adjustments of charge rates for services to meet market conditions and other forms of financing. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.