

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2012 and 2011



Wichita County Health Center
A Component Unit of Wichita County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Wichita County Health Center
Leoti, Kansas

We have audited the accompanying financial statements of Wichita County Health Center, a component unit of Wichita 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 Wichita County Health Center as of December 31, 2012 and 2011, and the 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 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 information, although not 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
April 30, 2013

Wichita County Health Center
A Component Unit of Wichita County, Kansas
Balance Sheets
December 31, 2012 and 2011

Assets

| | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,080,328 | \$ 90,033 |
| Patient accounts receivable, net of allowance; 2012 – \$1,219, 2011 – \$15,185 | 432,003 | 548,737 |
| Estimated amounts due from third-party payers | - | 300,000 |
| Other receivables | 68,163 | 62,052 |
| Supplies | 140,712 | 145,002 |
| Prepaid expenses and other | <u>40,948</u> | <u>40,737</u> |
| Total current assets | <u>1,762,154</u> | <u>1,186,561</u> |
| Capital Assets, Net | <u>2,402,288</u> | <u>2,419,761</u> |
| Total assets | <u><u>\$ 4,164,442</u></u> | <u><u>\$ 3,606,322</u></u> |

Liabilities and Net Position

| | 2012 | 2011 |
|---|--------------|--------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 69,348 | \$ 20,678 |
| Accounts payable | 154,907 | 267,872 |
| Accrued expenses | 430,454 | 356,943 |
| Estimated amounts due to third-party payers | 455,000 | - |
| Total current liabilities | 1,109,709 | 645,493 |
| Long-term Debt | 238,752 | 67,545 |
| Other Long-term Liabilities | 21,333 | 32,000 |
| Total liabilities | 1,369,794 | 745,038 |
| Net Position | | |
| Net investment in capital assets | 2,094,188 | 2,331,538 |
| Unrestricted | 700,460 | 529,746 |
| Total net position | 2,794,648 | 2,861,284 |
| Total liabilities and net position | \$ 4,164,442 | \$ 3,606,322 |

Wichita County Health Center
A Component Unit of Wichita 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 – \$36,979, 2011 – \$113,486 | \$ 5,629,963 | \$ 5,249,820 |
| Other | <u>55,752</u> | <u>47,498</u> |
| Total operating revenues | <u>5,685,715</u> | <u>5,297,318</u> |
| Operating Expenses | | |
| Salaries and wages | 3,249,376 | 3,064,009 |
| Supplies and other | 2,944,779 | 2,981,775 |
| Depreciation | <u>288,728</u> | <u>290,987</u> |
| Total operating expenses | <u>6,482,883</u> | <u>6,336,771</u> |
| Operating Loss | <u>(797,168)</u> | <u>(1,039,453)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 685,745 | 594,101 |
| Noncapital grants and gifts | 37,093 | 110,403 |
| Reimbursement from County | 16,587 | 20,142 |
| Investment income | 6,350 | 6,561 |
| Interest expense | <u>(15,243)</u> | <u>(10,405)</u> |
| Total nonoperating revenues | <u>730,532</u> | <u>720,802</u> |
| Deficiency of Revenues Over Expenses Before Capital Grants and Gifts | (66,636) | (318,651) |
| Capital Grants and Gifts | <u>-</u> | <u>31,690</u> |
| Decrease in Net Position | (66,636) | (286,961) |
| Net Position, Beginning of Year | <u>2,861,284</u> | <u>3,148,245</u> |
| Net Position, End of Year | <u><u>\$ 2,794,648</u></u> | <u><u>\$ 2,861,284</u></u> |

Wichita County Health Center
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Statements of Cash Flows
Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|----------------------------|-------------------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 6,501,697 | \$ 4,790,407 |
| Payments to suppliers | (3,053,454) | (2,958,615) |
| Payments to employees | (3,175,865) | (3,055,641) |
| Other receipts, net | <u>38,763</u> | <u>55,483</u> |
| Net cash provided by (used in) operating activities | <u>311,141</u> | <u>(1,168,366)</u> |
| Noncapital Financing Activities | | |
| Property taxes supporting operations | 685,745 | 594,101 |
| Noncapital grants and gifts | 37,093 | 110,403 |
| Reimbursement from County | <u>16,587</u> | <u>20,142</u> |
| Net cash provided by noncapital financing activities | <u>739,425</u> | <u>724,646</u> |
| Capital and Related Financing Activities | | |
| Capital grants and gifts | - | 31,690 |
| Principal paid on long-term debt | (43,623) | (36,148) |
| Interest paid on long-term debt | (15,243) | (10,405) |
| Purchases of capital assets | <u>(7,755)</u> | <u>(84,694)</u> |
| Net cash used in capital and related financing activities | <u>(66,621)</u> | <u>(99,557)</u> |
| Investing Activities | | |
| Investment income | <u>6,350</u> | <u>6,561</u> |
| Net cash provided by investing activities | <u>6,350</u> | <u>6,561</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 990,295 | (536,716) |
| Cash and Cash Equivalents, Beginning of Year | <u>90,033</u> | <u>626,749</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 1,080,328</u></u> | <u><u>\$ 90,033</u></u> |

Wichita County Health Center
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Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|--------------------------|------------------------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Provided by (Used in) Operating Activities | | |
| Operating loss | \$ (797,168) | \$ (1,039,453) |
| Depreciation | 288,728 | 290,987 |
| Provision for uncollectible accounts | 36,979 | 113,486 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 79,755 | 49,101 |
| Estimated amounts due from and to third-party payers | 755,000 | (622,000) |
| Other receivables | (16,778) | 136 |
| Supplies | 4,290 | (2,025) |
| Prepaid expenses and other | (211) | 7,849 |
| Accounts payable and accrued expenses | <u>(39,454)</u> | <u>33,553</u> |
| Net cash provided by (used in) operating activities | <u><u>\$ 311,141</u></u> | <u><u>\$ (1,168,366)</u></u> |
| Supplemental Cash Flows Information | | |
| Capital lease obligations incurred for capital assets | \$ 263,500 | \$ 20,200 |

Wichita County Health Center
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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

Wichita County Health Center (Health Center) is an acute care hospital located in Leoti, Kansas. The Health Center is considered a component unit of Wichita County. The Health Center is governed by an elected Board of Trustees. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services. The Health Center also provides long-term care and clinic services. The long-term care facility is doing business as Golden Acres.

Basis of Accounting and Presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center 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 Health Center 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 Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents at December 31, 2012 and 2011.

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.

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Property Taxes

The Health Center received approximately 11% in 2012 and 10% in 2011 of its financial support from property taxes.

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

Risk Management

The Health Center 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, 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 Health Center 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 Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center 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.

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 Health Center:

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

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Compensated Absences

Health Center 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 Health Center is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

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Income Taxes

As an essential government function of the County, the Health Center 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: 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 Health Center'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, \$862,126 of the Health Center's bank balance of \$1,112,126 was exposed to custodial credit risk. At December 31, 2011, none of the Health Center's bank balances of \$240,091 was exposed to custodial credit risk as follows:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------|
| Collateral held by pledging financial institution's trust department or agent in other than the Health Center's name | <u>\$ 862,126</u> | <u>\$ -</u> |

Note 3: Net Patient Service Revenue

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

Medicare. The Health Center is licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with

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final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare administrative contractor.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Health Center and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Health Center 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 Health Center 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 \$84,000 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 56% and 54% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Net patient service revenue consists of the following for the years ended December 31:

| | 2012 | 2011 |
|--------------------------------------|---------------------|---------------------|
| Gross patient service revenue | \$ 4,727,076 | \$ 4,331,676 |
| Plus (less): | | |
| Medicare contractual adjustments | 1,229,373 | 1,311,943 |
| Medicaid contractual adjustments | (12,777) | (43,964) |
| Charity care | (22,194) | (10,878) |
| Other adjustments | (254,536) | (225,471) |
| Provision for uncollectible accounts | (36,979) | (113,486) |
| | <u>\$ 5,629,963</u> | <u>\$ 5,249,820</u> |

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Note 4: Patient Accounts Receivable

The Health Center 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 | \$ 196,958 | \$ 233,070 |
| Medicaid | 22,246 | 29,598 |
| Blue Cross | 66,706 | 51,411 |
| Other third-party payers | 37,316 | 70,059 |
| Self-pay | 58,739 | 66,254 |
| | <u>381,965</u> | <u>450,392</u> |
| Less allowance for contractual adjustments | 51,257 | 113,530 |
| Less allowance for uncollectible accounts | <u>(1,219)</u> | <u>(15,185)</u> |
| | <u><u>\$ 432,003</u></u> | <u><u>\$ 548,737</u></u> |

The mix of gross patient accounts receivables from patient and third-party payers at December 31 consisted of:

| | 2012 | 2011 |
|--------------------------|--------------------|--------------------|
| Medicare | 52% | 52% |
| Medicaid | 6% | 7% |
| Blue Cross | 17% | 11% |
| Other third-party payers | 10% | 16% |
| Self-pay | <u>15%</u> | <u>14%</u> |
| | <u><u>100%</u></u> | <u><u>100%</u></u> |

Wichita County Health Center
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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

| | 2012 | | | |
|-------------------------------|------------------------------|--------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 5,950 | \$ - | \$ - | \$ 5,950 |
| Land improvements | 186,031 | - | - | 186,031 |
| Buildings | 3,957,316 | - | - | 3,957,316 |
| Fixed equipment | 1,221,184 | 7,755 | - | 1,228,939 |
| Major moveable equipment | 1,521,355 | 263,500 | (169,000) | 1,615,855 |
| | <u>6,891,836</u> | <u>271,255</u> | <u>(169,000)</u> | <u>6,994,091</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 121,171 | 8,020 | - | 129,191 |
| Buildings | 2,107,741 | 162,225 | - | 2,269,966 |
| Fixed equipment | 960,612 | 32,778 | - | 993,390 |
| Major moveable equipment | 1,282,551 | 85,705 | (169,000) | 1,199,256 |
| | <u>4,472,075</u> | <u>288,728</u> | <u>(169,000)</u> | <u>4,591,803</u> |
| Capital Assets, Net | <u>\$ 2,419,761</u> | <u>\$ (17,473)</u> | <u>\$ -</u> | <u>\$ 2,402,288</u> |

| | 2011 | | | |
|-------------------------------|------------------------------|---------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 5,950 | \$ - | \$ - | \$ 5,950 |
| Land improvements | 186,031 | - | - | 186,031 |
| Buildings | 3,939,216 | 18,100 | - | 3,957,316 |
| Fixed equipment | 1,221,184 | - | - | 1,221,184 |
| Major moveable equipment | 1,463,923 | 57,432 | - | 1,521,355 |
| | <u>6,816,304</u> | <u>75,532</u> | <u>-</u> | <u>6,891,836</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 113,150 | 8,021 | - | 121,171 |
| Buildings | 1,941,832 | 165,909 | - | 2,107,741 |
| Fixed equipment | 926,904 | 33,708 | - | 960,612 |
| Major moveable equipment | 1,199,202 | 83,349 | - | 1,282,551 |
| | <u>4,181,088</u> | <u>290,987</u> | <u>-</u> | <u>4,472,075</u> |
| Capital Assets, Net | <u>\$ 2,635,216</u> | <u>\$ (215,455)</u> | <u>\$ -</u> | <u>\$ 2,419,761</u> |

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Note 6: Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 Health Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Health Center for the years ended December 31:

| 2012 | | | | | | |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|------------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion | Long-term Portion |
| Capital lease obligations | \$ 88,223 | \$ 263,500 | \$ 43,623 | \$ 308,100 | \$ 69,348 | \$ 238,752 |

| 2011 | | | | | | |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|------------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion | Long-term Portion |
| Capital lease obligations | \$ 104,171 | \$ 20,200 | \$ 36,148 | \$ 88,223 | \$ 20,678 | \$ 67,545 |

Scheduled payments on the capital lease obligations are as follows:

| | Capital Lease | |
|--------------------------|----------------------|-----------------|
| | Principal | Interest |
| Year Ending December 31, | | |
| 2013 | \$ 69,348 | \$ 18,544 |
| 2014 | 69,762 | 13,571 |
| 2015 | 67,531 | 8,790 |
| 2016 | 59,335 | 4,918 |
| 2017 | 32,085 | 1,421 |
| 2018 - 2022 | 10,039 | 1,725 |
| | \$ 308,100 | \$ 48,969 |

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The following is an analysis of the financial presentation of the capital leases at December 31:

| | 2012 | 2011 |
|-------------------------------|--------------------------|-------------------------|
| Equipment | \$ 371,765 | \$ 108,265 |
| Less accumulated depreciation | <u>46,017</u> | <u>24,828</u> |
| | <u><u>\$ 325,748</u></u> | <u><u>\$ 83,437</u></u> |

Note 8: Pension Plan

The Health Center maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for full-time employees and 7.0% for part-time, seasonal and temporary employees. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Health Center aggregated \$79,308 and \$118,349 during 2012 and \$63,506 and \$114,311 during 2011, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Health Center are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Health Center which are not vested will be returned to the Health Center.

The Health Center provides one additional defined contribution plan (457 plan). The Health Center does not make contributions to the 457 plan. Contributions made by plan members totaled \$67,044 and \$42,065 during 2012 and 2011, respectively. The plan year begins on January 1 and ends December 31.

Note 9: Reimbursement from County

Reimbursements of \$16,587 and \$20,140 for 2012 and 2011, respectively, represent reimbursement of compensation paid to a case manager employed by the Health Center.

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Note 10: 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 to 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 Health Center's net patient service revenue. Additionally, it is possible the Health Center will experience payment delays and other operational challenges during PPACA's implementation.

The Health Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined case rates and discounts from established charges.

Note 11: Risks and Uncertainties

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 the fair value of investments and other 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 Health Center.

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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 Health Center'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 Health Center's ability to maintain sufficient liquidity.