

**Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)**

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



**Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)**

December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Hospital District No. 6 of Harper County, Kansas
d/b/a Anthony Medical Center
Anthony, Kansas

We have audited the accompanying balance sheets of Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center) as of December 31, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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
May 2, 2012

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Balance Sheets

December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 142,823	\$ 421,369
Restricted cash deposits	1,414	-
Patient accounts receivable, net of allowance; 2011 - \$394,253, 2010 - \$500,995	640,218	615,222
Property and sales taxes receivable	569,134	544,661
Estimated amounts due from third-party payers	321,000	225,000
Due from Medicare for electronic health records incentive	1,045,000	-
Supplies	108,306	130,586
Prepaid expenses and other	71,184	46,188
	2,899,079	1,983,026
Noncurrent Cash and Investments		
Certificates of deposit	457,906	394,046
	4,119,897	2,476,656
Capital Assets, Net		
	\$ 7,476,882	\$ 4,853,728
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 172,793	\$ 208,291
Accounts payable	1,508,841	208,127
Accrued expenses	365,634	349,541
Deferred property tax revenue	525,134	505,761
	2,572,402	1,271,720
Long-term Debt		
	782,681	806,998
	3,355,083	2,078,718
Net Assets		
Invested in capital assets, net of related debt	1,993,053	1,461,368
Unrestricted	2,128,746	1,313,642
	4,121,799	2,775,010
	\$ 7,476,882	\$ 4,853,728

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Statements of Revenues, Expenses and Changes in Net Assets Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue before provision for bad debts	\$ 5,010,160	\$ 5,484,035
Provision for bad debts	<u>(187,323)</u>	<u>(162,411)</u>
Net patient service revenue	4,822,837	5,321,624
Electronic health record incentive payment	1,045,000	-
Gain (loss) on disposal of assets	264,550	(58,999)
Other revenues	<u>241,765</u>	<u>257,695</u>
Total operating revenues	<u>6,374,152</u>	<u>5,520,320</u>
Operating Expenses		
Salaries and wages	3,398,662	3,421,118
Employee benefits	684,026	771,916
Purchased services and professional fees	291,222	280,246
Supplies and other		
Nursing	191,473	195,546
Other professional services	603,074	592,327
General services	268,627	277,965
Administrative services	433,151	300,118
Depreciation and amortization	557,557	294,872
Insurance	<u>81,818</u>	<u>72,333</u>
Total operating expenses	<u>6,509,610</u>	<u>6,206,441</u>
Operating Loss	<u>(135,458)</u>	<u>(686,121)</u>
Nonoperating Revenues (Expenses)		
Interest income	11,686	24,621
Interest expense	(61,717)	(79,046)
Property and sales tax appropriations	<u>748,863</u>	<u>723,435</u>
Total nonoperating revenues	<u>698,832</u>	<u>669,010</u>
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts	563,374	(17,111)
Capital Grants and Gifts	<u>783,415</u>	<u>278,217</u>
Increase in Net Assets	1,346,789	261,106
Net Assets, Beginning of Year	<u>2,775,010</u>	<u>2,513,904</u>
Net Assets, End of Year	<u><u>\$ 4,121,799</u></u>	<u><u>\$ 2,775,010</u></u>

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 4,701,841	\$ 5,441,699
Payments to suppliers and contractors	(1,616,018)	(1,718,732)
Payments to employees	(4,066,595)	(4,192,435)
Other receipts, net	235,251	258,895
Net cash used in operating activities	(745,521)	(210,573)
Noncapital Financing Activities		
Property and sales taxes supporting operations	748,863	723,435
Net cash provided by noncapital financing activities	748,863	723,435
Capital and Related Financing Activities		
Principal paid on long-term debt	(481,365)	(225,079)
Capital grants and gifts	783,415	278,217
Insurance proceeds received from involuntary conversion	260,000	-
Proceeds from sale of capital assets	4,550	749
Interest paid on long-term debt	(61,717)	(79,046)
Purchase of capital assets	(734,597)	(489,576)
Net cash used in capital and related financing activities	(229,714)	(514,735)
Investing Activities		
Purchase of certificates of deposits	(686,149)	(393,886)
Proceeds from sales and maturities of investments	622,289	703,888
Interest on investments	11,686	24,621
Net cash provided by (used in) investing activities	(52,174)	334,623
Increase (Decrease) in Cash and Cash Equivalents	(278,546)	332,750
Cash and Cash Equivalents, Beginning of Year	421,369	88,619
Cash and Cash Equivalents, End of Year	\$ 142,823	\$ 421,369

Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues		
(Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (135,458)	\$ (686,121)
Depreciation and amortization	557,557	294,872
(Gain) Loss on disposal of assets	(264,550)	58,999
Changes in operating assets and liabilities		
Receivables, net	(24,996)	149,075
Inventories	22,280	18,421
Prepaid expenses and other assets	(26,410)	117,429
Accounts payable and accrued liabilities	267,056	(134,248)
Estimated third-party payer settlements	(1,141,000)	(29,000)
	\$ (745,521)	\$ (210,573)
Supplemental Cash Flow Information		
Capital lease obligation incurred for property and equipment	\$ 421,550	\$ -
Capital assets included in accounts payable	\$ 1,171,371	\$ 126,720

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Hospital District No. 6 of Harper County, Kansas, operating as Anthony Medical Center (the Medical Center), was organized for the purpose of providing health care services to patients on an inpatient and outpatient basis in Harper County, Kansas and surrounding area. The Medical Center is governed by a Board of Directors elected by the registered voters of the District.

Basis of Accounting and Presentation

The financial statements of the Medical 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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Medical Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted of money market accounts.

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

Property and Sales Tax Revenues

The Medical Center operates under Kansas statutes as a hospital district and is entitled to receive a portion of the property taxes levied by the county. These proceeds are not restricted to specific uses by the Medical Center. The county levies property taxes in August of each year for the following budgetary period January 1 through December 31, based on the assessed value of property on the previous January 1. These property tax levies are approved by the state of Kansas in November. Property tax statements are mailed out in November with amounts due in December and May. City sales taxes are collected by Anthony, Kansas and remitted to the Medical Center monthly. The 2011 and 2010 tax revenues are as follows:

	<u>2011</u>	<u>2010</u>
Property	\$ 567,886	\$ 569,027
Sales	<u>180,977</u>	<u>154,408</u>
	<u>\$ 748,863</u>	<u>\$ 723,435</u>

Risk Management

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

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements

December 31, 2011 and 2010

Supplies

All supply inventories are stated at the lower of cost or market using the first-in, first-out method to determine cost.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	3 - 20 years
Buildings and leasehold improvements	5 - 40 years
Equipment	3 - 20 years

Compensated Absences

Medical Center policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Medical Center are classified in two components. Net assets invested in capital assets, net of related debt, 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 assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements

December 31, 2011 and 2010

Income Taxes

As a District (a political subdivision of Harper County and the state of Kansas), the Medical 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. The Hospital has also obtained 501(c)(3) status with the IRS.

Uncompensated Care

The Medical Center provides uncompensated care to patients meeting certain criteria under its uncompensated care policy. The amount of uncompensated care is included in net patient service revenue and is not separately classified from the provision for bad debts.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Medical Center'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. 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 Medical Center 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.

In 2011, the Medical Center completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of \$1,045,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net assets.

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements

December 31, 2011 and 2010

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare. The Medical Center 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 Medical Center is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor.

Medicaid. The Medical Center 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. The Medical Center is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Medical Center and reviews thereof by the Kansas Department of Health and Environment.

Approximately 69% and 64% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)**

**Notes to Financial Statements
December 31, 2011 and 2010**

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 Medical 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 and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At December 31, 2011 and 2010, respectively, \$36,915 and \$444,422 of the Medical Center's bank balances of \$635,062 and \$944,950 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's agent in other than the Medical Center's name	\$ 36,915	\$ 444,422

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	\$ 600,429	\$ 815,115
Restricted cash deposits	1,414	-
Petty cash	300	300
	\$ 602,143	\$ 815,415
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 142,823	\$ 421,369
Restricted cash deposits	1,414	-
Noncurrent cash and investments	457,906	394,046
	\$ 602,143	\$ 815,415

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

Note 4: Patient Accounts Receivable

The Medical 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:

	2011	2010
Medicare	\$ 267,225	\$ 248,908
Medicaid	21,234	13,287
Other third-party payers	214,311	194,812
Patients	531,701	659,210
	1,034,471	1,116,217
Less allowance for uncollectible accounts	394,253	500,995
	\$ 640,218	\$ 615,222

Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 5,104	\$ -	\$ -	\$ -	\$ 5,104
Land improvements	216,851	8,214	-	187,366	412,431
Buildings	2,713,059	100,537	-	843,112	3,656,708
Construction in process	451,927	620,330	-	(1,072,257)	-
Equipment – minor	106,189	-	-	-	106,189
Equipment – major	3,406,538	1,471,717	(346,974)	41,779	4,573,060
Leasehold improvements	6,228	-	-	-	6,228
	6,905,896	2,200,798	(346,974)	-	8,759,720
Less accumulated depreciation					
Land improvements	(118,198)	(26,704)	-	-	(144,902)
Buildings	(1,726,590)	(130,670)	-	-	(1,857,260)
Equipment – minor	(106,189)	-	-	-	(106,189)
Equipment – major	(2,472,114)	(400,157)	346,974	-	(2,525,297)
Leasehold improvements	(6,149)	(26)	-	-	(6,175)
	(4,429,240)	(557,557)	346,974	-	(4,639,823)
Capital Assets, Net	\$ 2,476,656	\$ 1,643,241	\$ -	\$ -	\$ 4,119,897

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 5,104	\$ -	\$ -	\$ -	\$ 5,104
Land improvements	216,851	-	-	-	216,851
Buildings	2,713,059	-	-	-	2,713,059
Construction in process	59,749	526,616	(59,745)	(74,693)	451,927
Equipment – minor	106,189	-	-	-	106,189
Equipment – major	3,304,131	30,006	(2,292)	74,693	3,406,538
Leasehold improvements	6,228	-	-	-	6,228
	<u>6,411,311</u>	<u>556,622</u>	<u>(62,037)</u>	<u>-</u>	<u>6,905,896</u>
Less accumulated depreciation					
Land improvements	(104,349)	(13,849)	-	-	(118,198)
Buildings	(1,635,086)	(91,504)	-	-	(1,726,590)
Equipment – minor	(106,069)	(120)	-	-	(106,189)
Equipment – major	(2,285,029)	(189,374)	2,289	-	(2,472,114)
Leasehold improvements	(6,124)	(25)	-	-	(6,149)
	<u>(4,136,657)</u>	<u>(294,872)</u>	<u>2,289</u>	<u>-</u>	<u>(4,429,240)</u>
Capital Assets, Net	<u>\$ 2,274,654</u>	<u>\$ 261,750</u>	<u>\$ (59,748)</u>	<u>\$ -</u>	<u>\$ 2,476,656</u>

Note 6: Medical Malpractice Coverage and Claims

The Medical Center 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

Note 7: Long-term Obligations

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

	2011				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 1,015,289	\$ 421,550	\$ 481,365	\$ 955,474	\$ 172,793
	2010				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 1,240,368	\$ -	\$ 225,079	\$ 1,015,289	\$ 208,291

Capital Lease Obligations

The Medical Center is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011 and 2010, totaled \$1,951,279 and \$1,584,511, net of accumulated depreciation of \$863,666 and \$776,937, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 3.22% to 7.99%, together with the present value of the future minimum lease payments as of December 31, 2011:

2012	\$ 226,500
2013	183,783
2014	141,775
2015	88,556
2016	88,556
2017-2021	421,405
2022-2024	101,062
Total minimum lease payments	1,251,637
Less amount representing interest	296,163
Present value of future minimum lease payments	\$ 955,474

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements December 31, 2011 and 2010

Note 8: Cost-sharing Multiple-employer Defined Benefit Plan

Plan Description

The Medical Center 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 Medical Center 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 Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869, or by calling 1.888.275.5737.

Funding Policy

The authority to establish and amend requirements of plan members and the Medical Center is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Medical Center is required to contribute at an actuarially determined rate; the rate was 6.74%, 6.14% and 5.54% of annual covered payroll for 2011, 2010 and 2009, respectively. The Medical Center's contributions to the plan for 2011, 2010 and 2009 were \$221,624, \$206,122 and \$171,687, respectively, which equaled the required contribution for the year. State law limits the Medical Center's future contribution rate increases to a maximum of 0.6% plus the cost of any benefit enhancements.

Note 9: Hospital Foundation

Anthony Medical Center and Clinic Association Foundation (Foundation) is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting the Medical Center and assisting community activities relating to providing health care services. The unaudited financial position and results of operations of the Foundation as of and for the years ended December 31, 2011 and 2010, are summarized as follows:

	2011	2010
Investments	\$ 80,612	\$ 174,658
Net assets	\$ 80,612	\$ 174,658
Revenue	\$ 99,322	\$ 96,358
Expenses	223,900	91,347
Revenue over (under) expenses	\$ (124,578)	\$ 5,011

Hospital District No. 6 of Harper County, Kansas (d/b/a Anthony Medical Center)

Notes to Financial Statements

December 31, 2011 and 2010

The Foundation provided \$216,286 and \$78,842 of support to the Medical Center during the years ended December 31, 2011 and 2010, respectively.

Note 10: 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, increases in bad debts, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

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 Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

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 allowances for accounts and contributions receivable that could negatively impact the Medical Center's ability to maintain sufficient liquidity.

Litigation

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

Supplementary Information

**Hospital District No. 6 of Harper County, Kansas
(d/b/a Anthony Medical Center)**
**Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2011**

	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Net Patient Service Revenue	\$ 4,701,841	\$ 6,400,000	\$ (1,698,159)
Other	<u>271,410</u>	<u>297,000</u>	<u>(25,590)</u>
Total Revenue	4,973,251	6,697,000	(1,723,749)
Operating Expenses, Less Depreciation and Amortization Including Interest Expense	<u>5,744,330</u>	<u>7,261,340</u>	<u>(1,517,010)</u>
Operating Loss Before Tax Support	<u><u>\$ (771,079)</u></u>	<u><u>\$ (564,340)</u></u>	<u><u>\$ (206,739)</u></u>